

TRAINING MANUAL

Community Development Block Grant Program
Economic Development Allocation

CALIFORNIA COMMUNITY ECONOMIC ENTERPRISE FUND COMPONENT
2003-04



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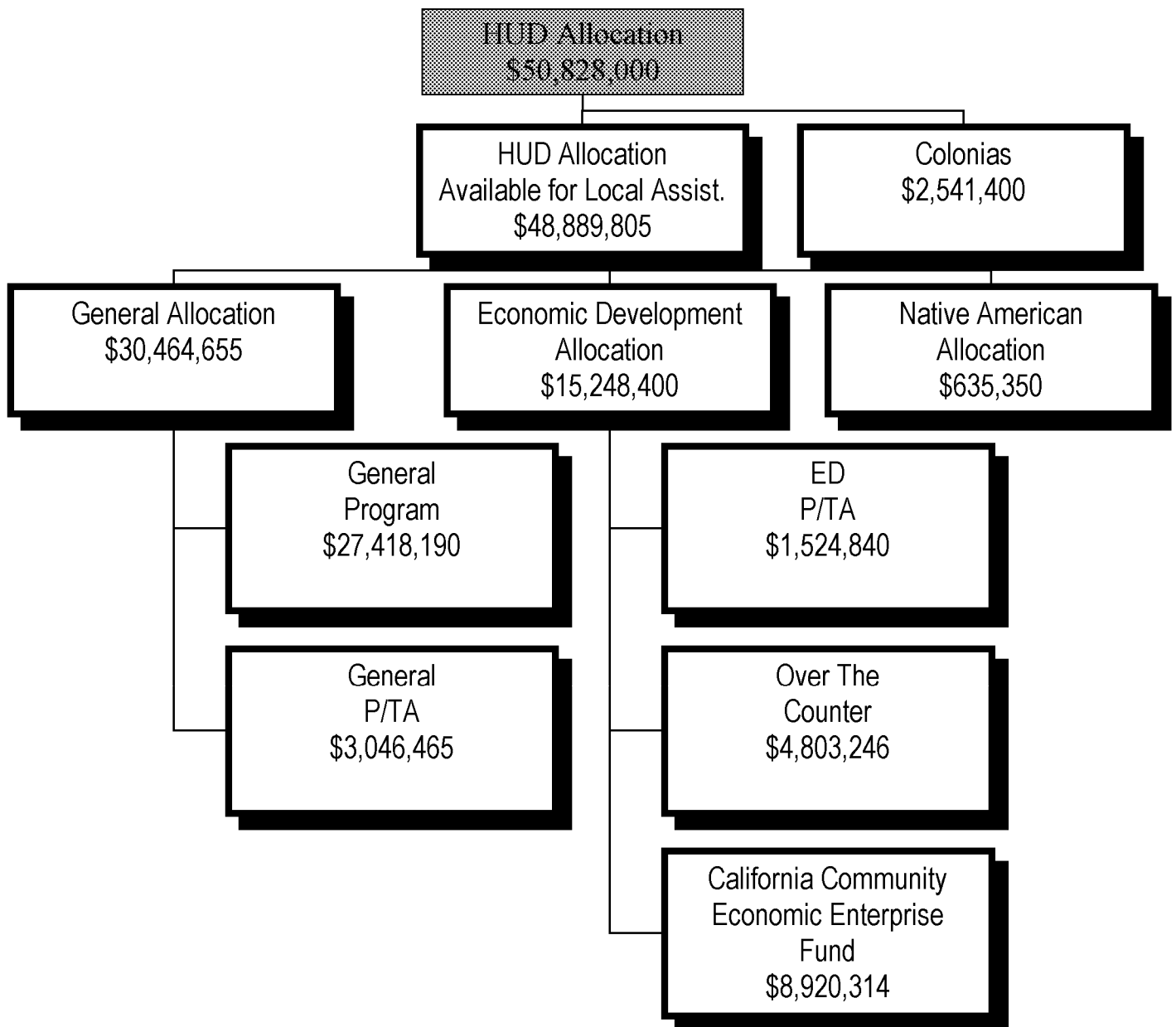
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**State of California
Community Development Block Grant
(CDBG) Program
2003-04 Allocation**



**STATE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM
CALIFORNIA COMMUNITY ECONOMIC ENTERPRISE FUND COMPONENT
(Enterprise Fund)**

TRAINING MANUAL – 2003-04

TABLE OF CONTENTS		PAGE
I.	INTRODUCTION	5
	Eligible Applicants	5
	Funding Process	5
II.	ELIGIBLE ACTIVITIES AND NATIONAL OBJECTIVES	7
A.	Business Assistance - Business Loans/Infrastructure	7
	1. Eligible Uses	8
	2. Eligibility Issues Related to Business Assistance Activities	8
	3. National Objective Issues Related to Business Assistance Activities	10
B.	Microenterprise Assistance Activities	12
	1. Eligible Uses	13
	2. Eligibility Issues Related to Microenterprise Assistance	13
	3. National Objective Issues Related to Microenterprise Assistance Activities	13
III.	RATING AND RANKING APPLICATIONS	14
	A. Need for Program	15
	B. Local Program Capacity	16
	C. Program Effectiveness	17
IV.	POLICIES AFFECTING PROGRAM DESIGN	19
	1. Underwriting Criteria in Business Assistance Loans	19

2. Public Benefit Analysis in Business Assistance	
Programs Documenting Jobs	20
A. Job Creation Proposals	21
B. Job Retention Proposals	21
C. Permanent Jobs	22
3. Meeting National Objective #1: TIG Benefit in Business Assistance and Microenterprise Assistance	22
A. Presumption of Benefit	22
B. Direct Evidence of TIG Status/Income Screening	23
C. Verification of Family Income Certification	24
4. Environmental Review Requirements	24
5. Labor Standards	25
6. Other Requirements Related to CDBG Funds	25
V. GLOSSARY	26

LIST OF APPENDICES

	PAGE
APPENDIX A: Guidelines and Objectives for Evaluating a CDBG Economic Development Project	29
APPENDIX B: Sample Program Guidelines for a Revolving Loan	33
APPENDIX C: Infrastructure Program Guidelines	95
APPENDIX D: Microenterprise Activity Program Guidelines	99
APPENDIX E: Beneficiary and Employment Plan Agreement Models	104
APPENDIX F: Microenterprise Statement of Purpose, Beneficiary Tracking And Cost Allocation Plan	113
APPENDIX G: Three-Way Employment Agreement Models	118
APPENDIX H: Verification Form for Family Income Certification	128
APPENDIX I: Tasks Matrix	135
APPENDIX J: Document Checklist for Drawdown Approval	137
APPENDIX K: Eligible Jurisdictions with Poverty Index	139
APPENDIX L: Labor Force Data for Counties	146
APPENDIX M: HUD Income Eligibility Limits by County For 2000	150
APPENDIX N: Cost Categories for General Administration, Activity Delivery, and Program/Loan Activity	160
APPENDIX O: Environmental Review Procedures Applicable to CDBG Funded Economic Development Activities	162
APPENDIX P: Additional Sources of Technical, Financial, Training and Employment Information	167
APPENDIX Q: Closing an RLF Loan	180
APPENDIX R: Sample Loan Closing Guidelines	191

I. INTRODUCTION

With the release of this Training Manual and the corresponding Application and Notice of Funding Availability (“NOFA”), the Department of Housing and Community Development (“Department”) is soliciting applications for the California Community Economic Enterprise Fund Component (“Enterprise Fund” or “EF Component”) of the State Community Development Block Grant (“CDBG”) Program's Economic Development Allocation. This funding component provides eligible jurisdictions with funding commitments with which they may originate local business loans, make infrastructure grants, or assist in the development of microenterprises, if these activities meet CDBG eligibility requirements and meet a CDBG national objective. This Training Manual describes the Enterprise Fund mechanism in detail, describing eligible uses, CDBG requirements, application procedures, rating and ranking criteria, and implementation issues. We strongly encourage you to read this manual prior to completing your application as there have been some changes in both the types of documentation requested and how applications are rated and ranked.

See the NOFA for the application due date and additional details on dates and application submittal.

ELIGIBLE APPLICANTS

The intent of the ED Allocation is to stimulate economic development in small cities and rural counties with high unemployment rates and lagging economies. Eligible jurisdictions are counties with less than 200,000 people residing in the unincorporated area, and cities with less than 50,000 residents. There is one exception: Cities under 50,000 population that are located in urban counties and participate in the federal CDBG Entitlement Program administered by the U.S. Department of Housing and Urban Development (“HUD”) are not eligible for the State CDBG Program. (See NOFA.)

FUNDING PROCESS

For the 2003-04 program year, 30 percent of the State’s CDBG allocation is set aside for the Economic Development Allocation. Ten percent of this amount is set aside for Planning and Technical Assistance grants. Of the remaining amount, 65 percent has been allocated to fund Enterprise Fund programs. Approximately \$8.9 million is allocated to the EF Component in 2003-04. (See page -1- for funding allocation amounts.) In general, the maximum amount of funding that may be awarded to a grantee under the ED Allocation (including the EF Component) is \$500,000 annually, not including Economic Development Planning and Technical Assistance grants.

The EF Component's funding cycle has a 150-day time line. Applicants have 70 days in which to prepare their applications and the Department has a maximum of 80 days to make funding decisions. The following describes the funding process:

- The Notice of Funding Availability (NOFA) is mailed to all cities and counties and other interested parties in California. Persons interested in applying for funds must request an application package, which contains the Application and the Training Manual. The 70-day application period begins with the release of the Application.
- In the letter accompanying the NOFA, the Department announces workshops in several locations within the State. These half-day workshops provide an overview of the State Program, including a review of the CDBG requirements, program design issues, the application form, evaluation criteria, and the major federal and State overlay and financial management requirements. Workshops occur after release of the NOFA to allow potential applicants an opportunity to review the information and come prepared with their questions and ideas for a local program.
- Completed applications for the EF Component must be physically delivered to the Department by no later than 5 pm on the application due date indicated in the NOFA. Applicants must submit an original and one copy of the application by this date. The Department will not accept applications or portions of applications after the published due date, even if the late submittal was approved by the applicant's elected officials before the due date. The application must be in the Department's possession by the due date and time published in the NOFA. Postmarks for the due date are no longer valid.
- Department staff reviews each application to determine whether the application is complete and is requesting funds for eligible activities. Within 30 days of the application due date, the Department will return the incomplete application with a written explanation of the reasons. The Department may, on rare occasion, schedule discussions or request additional information, as needed, with applicants only to clarify any ambiguities or resolve questions CDBG staff may have on the application. No additional documentation will be requested or accepted.
- The Department then evaluates all complete applications using the rating criteria prescribed in State regulations. Staff rates and ranks each application and makes recommendations to the Director of the Department who makes the final award decision.
- The final step in the award process is preparation of the Grant Agreement (also called "standard agreement"), a contractual document in which the Department sets forth the terms and conditions for the use of funds. The grant recipient has 30 days in which to review the Grant Agreement, enact a Resolution approving it, sign the Agreement, and return it to the Department. This 30-day time frame will be enforced by the Department for all grantees.

- Upon award and execution of a State contract, the Department reserves funds for the grantee. The EF Component utilizes a funding mechanism whereby the Department holds funds for successful applicants, and makes funds available as projects are locally identified and underwritten.
- After meeting any special conditions contained in the Standard Agreement, the jurisdiction begins implementing the program: originating business loans or infrastructure grants, or assisting microenterprises. With each initial drawdown request, the jurisdiction must provide documentation of loan underwriting, loan documents, triparty agreements, employment agreements, environmental documents, etc. as described on the Drawdown Request form provided in the Grant Management Manual. At the twenty-fourth month of the grant agreement the grantee's loan encumbrances will be reviewed and *uncommitted loan funds will be disencumbered.*

II. ELIGIBLE ACTIVITIES AND NATIONAL OBJECTIVES

Section 101(c) of the Housing and Community Development Act establishes the primary federal objective for the CDBG Program as the development of viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low- and moderate-income. This overall objective is to be achieved through the undertaking of eligible activities, each of which must carry out a broad National Objective as set out in Section 104(b)(3) of the Act.

This section describes the applicability of these requirements (Eligible Activities and National Objective) to the two categories of eligible activities: Business Assistance activities and Microenterprise Assistance.

Business Assistance Activities include establishing a loan fund program for business start-ups and expansions as well as for infrastructure improvements necessary to accommodate business expansion, start-up or retention projects.

Microenterprise Assistance Activities include programs that establish and expand Microenterprises through technical assistance, business support services, and the provision of capital.

A. **Business Assistance - Business Loans/Infrastructure**

The EF Component can be used in a variety of ways to fill gaps in project financing. These gaps include the availability or the cost of capital needed by the expanding or new businesses or the need for public infrastructure improvements necessary to accommodate business expansion and/or retention projects that cannot be funded by another source of funds.

1. Eligible Uses

Business Loans - The following are eligible uses for business loans:

- a. construction loans;
- b. equipment purchase loans;
- c. land acquisition loans;
- d. loans for privately owned on-site improvements;
- e. working capital loans; and
- f. loan guarantees.

Infrastructure Grants The following are eligible uses for infrastructure grants:

- a. Construction, rehabilitation, or replacement of off-site public improvements, including; streets, sewer, water, storm drains, etc. necessary to accommodate a specific business expansion or retention project that will create or retain jobs; and
- b. Construction, rehabilitation, or replacement of other publicly-owned facilities that will lead directly to the creation or retention of private-sector jobs.

Please Note: –Each Business loan or Infrastructure assistance grant provided in the amount of \$250,000 or more will require review and approval by the Department’s Economic Development Advisory Committee. If you anticipate a loan or grant of \$250,000 or more may be submitted for approval you should contact your CDBG representative early in the process to avoid delays. An on site visit by staff and review by the programs Financial Consultant may be required.

2. Eligibility Issues Related To Business Assistance Activities

Each business assisted under the Business Assistance component must meet the underwriting criteria and public benefit test.

- **Underwriting Criteria** *(See Section IV: for additional discussion)*

The underwriting guidelines must be applied to each loan or grant (project), made under the Business Assistance component. The underwriting guidelines facilitate the analysis necessary to determine that the business is financially viable and will make the most effective use of CDBG funds. A determination must be made (prior to providing the CDBG assistance for each CDBG-assisted project) that the amount of the CDBG assistance and the terms for that assistance are **appropriate**, given the documented needs of the business, and given the amount of public benefit that will be realized from the project. The local Program Design and Program Guidelines that govern implementation of a local Business

Assistance activity should incorporate the “Appropriate Determination” requirement. The methodology for making the “Appropriate Determination” is also summarized in Appendix A, "Guidelines and Objectives for Evaluating a CDBG Economic Development Project," and is included in the sample Program Guidelines for a Revolving Loan Fund under Exhibit I of Appendix B. For jurisdictions proposing to use EF for infrastructure projects, additional requirements for guidelines are discussed in Appendix C.

- **Public Benefit** *(See Section IV for additional discussion.)*

Each business provided assistance under the Business Assistance component must demonstrate that the assistance provided meets minimum federal public benefit standards. The local Program Design and Program Guidelines that will be used to implement Business Assistance activities should incorporate the Public Benefit standards.

The public benefit standards utilize the CDBG \$35,000 cost per job or the CDBG \$350 cost per Targeted Income Group (TIG) person served as the sole measures of public benefit. The absolute upper limit (\$50,000/job) for these standards is applied to assisted projects in the "aggregate" and applies to any "individual" loan within the aggregate.

Aggregate Public Benefit Standards. In the aggregate, the local program must either:

1. create or retain at least one full-time equivalent, permanent job per \$35,000 of CDBG funds used; or
2. provide goods or services to residents of an area, such that the number of TIG persons residing in the area served by the assisted businesses amounts to at least one TIG person per \$350 of CDBG funds used.

For example, a local EF program funds two projects. A \$120,000 CDBG loan to an expanding business is projected to result in the creation of four permanent part-time jobs (each permanent, part-time job will provide at least 875 hours of employment per year) and one full-time, permanent job. This activity, then, is projected to result in three full-time equivalent (FTE) jobs at a CDBG cost per job of \$40,000 per job created. A second \$60,000 CDBG loan will result in the creation of three FTE jobs. In the aggregate, the CDBG cost per job for the local EF program is \$30,000. The two loans will meet the aggregate public benefit standard and neither loan will exceed the individual public benefit standard (see discussion below).

Individual Public Benefit Standards. The amount of CDBG assistance to an individual business cannot exceed either one of the following standards:

1. \$50,000 per full-time equivalent, permanent job created or retained; or
2. \$1,000 per Targeted Income Group person in the area served by the business.

Loans that are projected to exceed these public benefit standards are considered by the Department to provide insufficient public benefit and should not receive assistance with CDBG funds. It should be noted here that, for a business assistance loan to a microenterprise (defined as a business of 5 or fewer employees of which one or more are the business owners, the owners *can be counted* in determining the cost per job ratio.

3. National Objective Issues Related To Business Assistance Activities

Each Business Assistance activity funded under the EF Component must meet at least one of the three federally mandated national objectives. These national objectives are:

- National Objective #1: The development of viable communities by expanding economic opportunities, principally for persons of low- and moderate-income
- National Objective #2: Aiding in the prevention or elimination of slums or blight
- National Objective #3: Meeting other community development needs having a particular urgency

The criteria for each national objective are described below.

National Objective #1: Expanding economic opportunities, principally for low- and moderate-income persons. *(See Section IV: for additional discussion)*

Most businesses funded under the Business Assistance category will meet the national objective of expanding economic opportunities, principally for persons of low- and moderate-income (TIG). This is accomplished by documenting that at least 51 percent of the jobs that will be created or retained by the CDBG-assisted business expansion or retention project will be filled by members of the TIG.

Ultimate benefit to the TIG is typically documented by prescreening the

income of the persons to be hired for the TIG jobs. However, a person may be presumed to be TIG if any of the following situations are documented:

- a. the person filling the job resides within a census tract (or block numbering area) that either: 1) has at least 70 percent of its residents who are members of the TIG; or 2) the business being assisted is located within a such a qualifying census tract;
- b. the person or business is within a census tract that is part of a federally-designated Empowerment Zone or Enterprise Community, or
- c. the census tract meets the following criteria: a) a poverty rate of at least 20 percent as determined by the most recent decennial census information and, the census tract evidences pervasive poverty and general distress (i.e. all block groups in the census tract have poverty rates of at least 20 percent) or the applicant has written approval from HUD of other HUD approved measures of distress.

When meeting the low/moderate income national objective (TIG), infrastructure projects have additional requirements. CDBG funds should principally be used to pay for costs associated with the capacity needed by the immediately benefiting business(es). Where the infrastructure improvement will principally benefit the immediately benefiting business(es), but other businesses may also benefit from the improvements, the grantee may meet the low- and moderate-income national objective (51 percent of jobs to members of TIG) by aggregating only those jobs created or retained by those businesses for which the improvement is principally undertaken, provided that the cost (in CDBG funds) is less than \$10,000 per permanent full-time equivalent job to be created or retained. If the cost per job to be created or retained is \$10,000 or more per FTE job, the national objective must be met by aggregating the jobs created or retained by all businesses that locate or expand within the service area (as a result of the CDBG-assisted improvement) between the date the project is awarded the CDBG funds and one year after the physical completion of the public improvement. In any event, the cost per job cannot exceed the \$35,000/job Public Benefit standards described under the "Eligibility Issues" section.

National objective #2: Activities which aid in the prevention or elimination of slums or blight. In general, this national objective is met if the CDBG-assisted activity will directly remedy a slum or blighted condition that is within a designated area that meets a definition of a slum, blighted, or deteriorated area under State or local law. The project being funded must

specifically remedy a condition that has been identified in a redevelopment plan as a blighted or slum condition and the CDBG-funded activity should be related to one of the projects specifically identified in an implementation plan as being necessary to remedy an identified slum, blighted or deteriorated condition. Under specific criteria, this objective can also be met on a spot basis. However, the uses of CDBG funds are limited to meeting health and safety needs.

Prior to providing CDBG assistance under this national objective, the grantee should consult with the State CDBG Program to determine if the specific project can meet this objective.

National objective #3: Activities designed to meet community development needs having a particular urgency.

A CDBG-assisted activity will meet this national objective if the jurisdiction certifies that the activity is necessary to alleviate existing conditions which pose a serious and immediate threat to the health or welfare of the community, are of recent origin and for which the jurisdiction is unable to finance without an additional injection of funds. A condition will be considered to be of recent origin if it developed or became critical within 18 months of the certification by the jurisdiction.

Prior to providing CDBG assistance under this national objective, the grantee should consult with the State CDBG Program to determine if the specific project can meet this objective.

B. Microenterprise Assistance Activities.

CDBG funds can be used to assist owners of microenterprises or persons developing microenterprises. A microenterprise is defined as a business that has five or fewer employees, one or more of whom owns the enterprise. Persons developing microenterprises are defined as persons who have expressed interest and who are, or after an initial screening process are expected to be, actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed. The Department does not expect that all persons being assisted in developing a microenterprise will actually be operating their enterprise by the time the grant closes unless the person being assisted is not a member of a TIG household. When a non-TIG client is served in a microenterprise technical assistance program, they must be currently operating a business or must establish a business and create jobs, 51% of which are held by members of TIG households, prior to the expiration of the grant agreement.

1. Eligible Uses

Microenterprise assistance activities facilitate economic development by:

- a. providing credit, including grants, loans, loan guarantees and other forms of financial support which will establish, stabilize or expand microenterprises; and
- b. providing technical assistance, advice, and business support services to owners of microenterprises and persons developing microenterprises; and
- c. providing general support, including peer support programs, counseling, child care, transportation, and other similar services, to owners of microenterprises and persons developing microenterprises.

2. Eligibility Issues Related To Microenterprise Assistance

The "Appropriate Determination" and "Public Benefit" requirements associated with Business Assistance activities are not *strictly* applicable to Microenterprise Assistance activities that meet the Limited Clientele definition under the national objective assistance to Low-Moderate income households, as defined below. However, the most effective Microenterprise Assistance program creates jobs and expands or creates new Microenterprises. Program Guidelines should include measures of the public benefit from this activity, including the cost per job created or retained. Additionally, if your microenterprise assistance program includes a lending component, the Program Design should include underwriting criteria. Be advised, if a non-TIG microentrepreneur or potential entrepreneur receives business, general support or credit financing through the microenterprise assistance activity, they must meet both the appropriate test (demonstrated gap) and must create jobs to ensure the 51% benefit to TIG national objective is met prior to the expiration of the grant agreement. **There is however, no Public Benefit requirement.**

3. National Objective Issues Related To Microenterprise Assistance

Assistance provided to owners of microenterprises, or persons developing microenterprises, under the Microenterprise Assistance Activity must meet the national objective of expanding economic opportunities, principally for low- or moderate-income persons (TIG). Under the Microenterprise Assistance Activity this objective can be met in one of two ways. A program may meet one or both objectives.

- a. *Limited Clientele*. This provision of federal regulation allows the jurisdiction to look at the income of the owner of the microenterprise or of

the persons developing a microenterprise for purposes of determining the TIG benefit of the clientele. (*Employees of assisted businesses are not considered in meeting the national objective requirement.*) Under this option, any person receiving assistance under a CDBG-assisted Microenterprise Assistance activity must be a TIG person. The program must determine and document the client's income eligibility based on family size and income.

b. *Job Creation/Retention.* Under this method of meeting the national objective, non-TIG entrepreneurs may still be assisted if at least 51 percent of the jobs being created or retained (including the business owner(s)' job) are filled by members of the TIG. The presumption of TIG benefit described above under National Objectives Issues Related To Business Assistance activities (census tracts and Enterprise or Empowerment Zones) may apply to this method of compliance or the individual employees must be income screened prior to hire.

III. RATING AND RANKING APPLICATIONS

Application criteria for the Enterprise Fund are described in State regulations in Section 7062.1(a)(5)(D). Generally, these criteria are designed to assess the following:

1. comparative local needs for economic development assistance;
2. the extent to which the program design meets identified local need and the capacity of the jurisdiction to implement an Enterprise Fund program efficiently and in a manner that ensures compliance with CDBG program requirements; and
3. the effectiveness of the proposed program in maximizing other available resources and the extent to which the proposed program complements a local or regional economic development plan or strategy.

The evaluation criteria are weighted by the maximum number of points assigned to each of the categories of criteria, as follows:

Need for Program	30
Local Program Capacity	50
Program Effectiveness	20
Maximum Total Points	<u>100</u>

Each criterion is explained in detail below.

A. Need for Program (Maximum Total 30 Points).

1. Relative Poverty Index (Maximum 15 Points)

The Department will compare the applicant jurisdictions on the basis of the percentage of the population with incomes below the poverty level as provided in the latest decennial census. The Department will assign the full 15 points to the application serving the jurisdiction with the highest percentage of poverty. The other applicants will be rank ordered based on their poverty rate in relation to the poverty rate of the jurisdiction with the highest poverty level for its proposed area of service.

Applicants may elect to target their program to operate within specific census tracts. In that case, the Application must document the poverty rate for a targeted census tract and block group area based on the most recent decennial census and the Department will assign poverty points on the basis of that targeted area. This method may provide a competitive edge for jurisdictions with pockets of poverty that are considerably higher than the countywide poverty index, however, an applicant that targets its program to specific areas within the jurisdiction may have difficulty marketing the program effectively.

2. Relative Unemployment Rate (Maximum 10 Points)

The Department will compare the applicant jurisdictions on the basis of the county's unemployment rate. The Department will use the Employment Development Department's Labor Force Data For Counties to compare jurisdictions' annual average unemployment rates.

As with the method of assigning points for comparative poverty rates, the Department will assign the full 10 points to the application serving the area (county) with the highest rate of unemployment. The other applicants will be rank ordered based on their respective unemployment rates relative to the unemployment rate of the jurisdiction located within the county with the highest unemployment rate.

3. Adverse Economic Event (5 Points)

Applicants will provide third source documentation of an adverse economic event that has occurred in the last 24 months and will document job losses that have occurred, or losses projected to occur, within 36 months from the date of the adverse economic event. The event must be a Presidential Declaration of Disaster or Federal directive to provide preference or assistance. As with the method of assigning points for comparative poverty and unemployment rates above, the Department will assign the full 5 points to the application suffering the greatest job loss relative to the

jurisdiction's labor force. The other applicants will be rank ordered.

B. Local Program Capacity (Maximum Total 50 Points)

1. Performance on Past CDBG ED Grants (Maximum 20 Points)

Experience has shown that an applicant's ability to manage prior CDBG Economic Development grants is a good indicator of probable performance on proposed activities. The Department will review an applicant's performance on CDBG Economic Development Allocation grants that have been funded under the 1998, 1999 and 2000 program years. Performance on these grants will be measured under four categories: timely submittal of required program and fiscal reports; rate of expenditure of CDBG funds; leverage of other non-state and non-federal funds; and, unresolved monitoring or audit findings. An assessment of actual vs. projected leverage on grants will be conducted to the review to determine how accurately each local program is in projecting its leveraging other funds.

2. Relative Strength of Basic Program Design (Maximum 10 Points)

Generally, applications will be reviewed to evaluate whether the local program is designed to effectively and efficiently meet local economic development needs. The activity description component of the application asks for a two-fold description of the local program: Program Design, and Program Guidelines. The Program Design should describe the activity, assess the local need, and demonstrate how the CDBG funding tool best accommodates the activity/ies designed to meet the locality's specific economic development need. The Program Guidelines should describe tasks and staff roles, include resumes clearly identifying CDBG RLF experience by actual operators and, must incorporate a task matrix that dovetails with those tasks, roles and activities, in order to provide a framework for how the local program will ensure compliance with CDBG eligibility, national objective and federal overlay requirements (e.g., environmental review, labor standards, etc.) *See Section IV: Policies #4 and #5 for additional information on environmental review and labor standards.* See **Appendices B, C and D** for information on content of Program Guidelines. See **Appendix I** for the Tasks Matrix.

3. Relative Experience of Program Operators (Maximum of 10 Points)

The application should identify the parties responsible for implementing the program. This may include local staff or private consultants. The application should also document the experience of the implementing parties. This should be in the form of an executed subrecipient agreement or program operator contract in circumstances where the applicant has an

ongoing contract with a subrecipient or a previously procured contractual relationship with a consultant. Existing contracts must meet a completeness test for Department-approved language required in Subrecipient and/or Program Operator Agreements. An applicant without an existing program operator or subrecipient must supply either resumes of local staff and/or letters of interest and resumes from potential consultants or a subrecipient. Resumes should include all relevant experience and emphasize actual CDBG RLF and or microenterprise grants management experience where appropriate.

4. Other Local Organizational Support (Maximum of 10 Points)

Local program capacity will also be measured by the availability of other local resources if the grant will be managed entirely in house. For example, the local workforce developers may be willing to provide income-eligibility screening services for the program. The local Small Business Development Center may provide referrals to the program or may provide other assistance to prospective EF borrowers. The application should include executed agreements for service or commitment letters from the contributing local organizations which describe the service and/or contribution, assign a dollar value and include the effective dates of the commitment.

C. Program Effectiveness (Maximum Total 20 Points)

1. Extent to Which Program Complements Local or Regional Economic Development Plan (Maximum 10 points)

Enterprise Fund business assistance and microenterprise activities should contribute towards the realization of goals and objectives that have been identified in local and regional economic development plans. The applicant should describe how the proposed activity(ies) will meet the goals and objectives of a local or regional economic development plan. To achieve full points, the applicant should cite the link between the program's design and the existing economic development plan, which will specifically identify CDBG-fundable activity, as well as include the appropriate pages from the plan. In addition, for microenterprise activities, documented linkages which build on Welfare to Work Programs and/or CalWORKS plans will also receive full points.

2. Commitment of Other Funding Sources (Maximum of 10 Points).

Applicants should seek to maximize the contributions from other, available funding sources to complement their Enterprise Fund program activities. This criterion will assess the leverage committed from private and local sources to the local program. However, it is important to note that as leverage is a commitment that is

included by source and dollar amount in the grant agreement and therefore held up as a monitoring standard should the application be funded, the proposed figure should be a realistic one.

For purposes of this criterion:

- Private funds include loans from private lenders, including SBA and Rural Development B&I loan *guarantees*, equity contributions from business owners, and private foundations.

Note: Private equity is defined as **new** equity (e.g., cash or other quantifiable assets) that is contributed by the business owners toward the individual projects being financed with CDBG Enterprise Funds. *Existing* business *equity* that is *not funding* the CDBG-financed *project* will not qualify as new equity. Program Guidelines should specify what will be considered as private equity from the owner.

- Local funds include local redevelopment agency funds, the locality's general funds, EDA capitalized loan funds and other locally-controlled revolving loan funds.

Except for equity contributions from business owners, all sources of leverage should be documented with a commitment letter or funding resolution from the funding source.

Equity contributions from business owners should be documented in two places: 1) Program Guidelines should document the equity requirement; and 2) Program Design should estimate the number of loans or grants to be provided and the type of business loan (e.g., start-up, business expansion, etc.). From this analysis, the applicant should be able to calculate an expected amount of private equity to be injected into the projects funded from the CDBG Enterprise Fund. Applications that list private equity as a source of leverage, but do not document the requirement and the anticipated number of loans in the Program Guidelines and Program Design will not receive points for private equity.

Microenterprise programs document private and/or local leverage in the same manner as the other Enterprise Fund activities. However, since bank participation is less likely in a microenterprise program, the microenterprise assistance application will receive maximum leverage points whatever the amount of leverage documented.

IV. POLICIES AFFECTING PROGRAM DESIGN

1. UNDERWRITING CRITERIA IN BUSINESS ASSISTANCE LOANS

HUD requires that the state or local government conduct basic financial underwriting prior to the provision of CDBG financial assistance to a business. HUD has developed guidelines that are designed to provide grantees with a framework for financially underwriting and selecting CDBG-assisted economic development projects that are financially viable and will make the most effective use of the CDBG funds. The State CDBG program requires that these HUD underwriting guidelines be used to determine whether a proposed CDBG subsidy is *appropriate* to assist a business expansion or retention project. In addition, the project must be reviewed to determine that a minimum level of *public benefit* will be obtained from the expenditure of the CDBG funds in support of the project.

The objectives of the underwriting guidelines are to ensure:

- (1) that project costs are reasonable;
- (2) that all sources of project financing are committed;
- (3) that to the extent practicable, CDBG funds are not substituted for non-Federal financial support;
- (4) that the project is financially feasible;
- (5) that to the extent practicable, the return on the owner's equity investment will not be unreasonably high; and
- (6) that to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project;
- (7) that the projected level of public benefit is reasonable.

Historical business and personal financial information (e.g. balance sheets, income and expense statements and tax returns), as well as forecasted profit and loss statements should be required from every business or developer requesting CDBG assistance. These documents are used to make a determination of the need for the CDBG funds and to provide the basis for structuring the amount of CDBG participation as well as the interest rate and term for the CDBG loan. Financial information from the business or developer should indicate the status of income tax, payroll tax, property tax and sales tax.

HUD's underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes.

- Start-ups, by definition, will not have historical financial information. Rather, program operators rely on evidence of a business plan, a marketing analysis, ability to provide an equity injection, and cash flow projections, and evidence of the principal's financial condition.
- Businesses less than three years old should provide year-to-date financial

information plus a business plan, marketing plan, ability to provide a cash flow injection and cash flow projections, and evidence of the principal's financial condition.

- Businesses that are three years old or older, and continuing in the same line of business could provide financial information for the last three years and year-to-date (tax returns and balance sheets). If the business is going into a new market or service sector, cash flow projections and a business plan including a market analysis must be provided.
- Developers should provide forecasted profit and loss statements that include an internal rate of return analysis.
- Small business incubators should provide a feasibility study, an operating budget, a marketing plan to attract appropriate incubator tenants, and a plan for delivering technical assistance to incubator tenants. Additionally, applicants might also be required to provide letters from tentatively committed tenants or proposed lease agreements for committed tenants, and business/financial information on each start-up tenant, which will document the financial feasibility of the small business and its ability to create jobs.

Additional information may be necessary as the underwriting process is conducted.

2. PUBLIC BENEFIT IN BUSINESS ASSISTANCE PROGRAMS: DOCUMENTING JOBS

Failure of the grantee to meet the aggregate CDBG public benefit requirements (\$35,000/job for the overall program with a maximum individual cost/job ratio of no higher than \$50,000/job) may result in repayment of grant funds or program income to the local account or the Department. The Department's evaluation of the performance regarding the number of permanent new jobs created or jobs retained will occur approximately 24 months after the State signs the grant agreement. For purposes of meeting the CDBG public benefit requirement, all jobs must be created or retained by the end of the grant term, which is typically 30 months.

A. Job Creation Proposals

In job creation proposals, it is required that a recipient (the business) demonstrate that CDBG assistance will result in the creation of permanent, full-time (or full-time equivalent) private-sector jobs. For start-up businesses, job creation estimates should be supported by the projected labor costs contained in the financial projections. Financial projections for existing businesses should also support labor costs associated with the increase in jobs.

B. Job Retention Proposals

To qualify as a job retention proposal, the city or county should document that the jobs would actually be lost without the CDBG assistance. There should be evidence in the public record that prior to providing CDBG assistance, it was clearly and objectively demonstrated that without CDBG assistance, the jobs would be lost. Examples of clear and objective evidence include: a notice issued by the business to affected employees; a public announcement by the business to affected employees; financial records or other records provided by the business or other entities that clearly indicate the need for CDBG assistance to continue the business's operations in the jurisdiction. The grantee should maintain documentation that supports the conclusion that without the infusion of the CDBG funds, the jobs would be lost.

If the national objective (*See Section IV: Policy #2*) being met is through benefit to the targeted income group, an income survey of current employees must document that at least 51 percent of the jobs retained with CDBG dollars are held by members of the targeted income group. However, if the survey cannot support 51 percent benefit, there are other options to qualify the application as a job retention proposal. For example: based on historical data on job turnover rate, the business can stipulate to a hiring plan over the next few months that will provide new jobs primarily for the targeted income group. Together, the number of actual TIG jobs retained, plus the number of projected TIG hires must achieve the 51 percent eligibility threshold for funding.

A self-certification form may be used to survey the incomes of the current employees to determine TIG status prior to making a funding decision, but only to demonstrate eligibility for the use of funds. If funding is approved, a representative number of the retained employees must be income-screened for TIG eligibility to document the reliability of the survey results and to demonstrate a 51% TIG benefit at time of retention or a plan for achieving 51% benefit through attrition.

C. Permanent Jobs

Only permanent jobs directly related to the assisted activity are considered for purposes of determining whether the project will generate the requisite amount of public benefit. A permanent job is defined as a job classification that provides 1,750 hours a year employment. Full time equivalent jobs (FTE) are considered toward establishing a final job count. Two part time jobs of at least 875 hours per year each can count as one FTE job. However, fractions of full-time employment (e.g. 0.5 FTE) are not considered in meeting the program's public benefit standard.

During underwriting, the grantee must evaluate the business' timetable for job creation to determine whether the proposed timetable is attainable, and will occur by the end of the 30 month grant period. A job classification is considered "permanent" if it is tied to the business's annual growth in sales or supported by the prior 24 months' sales and operating expenses.

3. MEETING NATIONAL OBJECTIVE #1: TIG BENEFIT IN BUSINESS ASSISTANCE AND MICROENTERPRISE ASSISTANCE ACTIVITIES

A. Presumption of Eligibility

Current Federal regulations allow the presumption that an employee belongs to the targeted income group if

- 1) the employee resides in a census tract (or block numbering area) which has at least 70% of its residents who are low or moderate income persons (TIG).

OR

- 2) the employee resides in, or the business is located in and the job under consideration is to be located within a census tract (or block numbering area) which:

- a. is part of a Federally designated Empowerment Zone or Enterprise Community;

OR

- b. has a poverty rate of at least 20% as determined by the most recent decennial census information;

AND

it evidences pervasive poverty and general distress if all block groups in the census tract have poverty rates of at least 20 percent, according to the most recent decennial census, or the specific activity is located in a block group that has a poverty rate of at least 20 percent, or upon the written request of HUD to determine that the census tract exhibits other objective signs of general distress

(high rates of crime, drug use, homelessness, abandoned housing and deteriorated infrastructure or population loss.

B. Direct Evidence of TIG Status and Income Screening

For purposes of meeting the TIG benefit national objective, the salary level of a job is not evidence that it is held by a targeted income group employee. That is, the CDBG program cannot conclude that an employee is in the targeted income group based on a minimum wage job. It is possible that a minimum wage job, when combined with a spouse's salary or the salary of an adult child living at home, will exceed 80 percent of the county median income for the employee's family size. If so, the employee is not within the targeted income group. Therefore, for an employee to qualify as belonging to the targeted income group, all sources of family income must be disclosed. The total family income as of the date of hiring (for newly created jobs) or the date of the CDBG application (for retained jobs) must be at or below 80 percent of the county median for the employee to qualify for inclusion in the targeted income group.

All employees (100 percent) for jobs being counted towards the TIG benefit requirements must be income screened to determine TIG status. It is the responsibility of the grantee to assure that the job holders are being screened for TIG eligibility and that adequate records are being maintained. A grantee may utilize the services of a local job training agency to income screen job applicants. The State CDBG program allows jurisdictions to use the agencies funded through Workforce Investment Act (WIA) funds for a definition of income eligibility when there is an executed contract with a WIA agency. (See the Appendix E for the Employment Plan Agreement Model.) Including an executed agreement with a screening agency will strengthen the application. The grantee should also include a non-financial default provision in all loan agreements that specifies that the business will utilize the services of the agency and will provide the grantee with regular (at least quarterly) reports on number of hires and number of TIG hires.

If a job training agency does not income screen applicants, the grantee or the business must income screen the employees. In this instance, the grantee or the business may utilize the methodology of the local job training agency, or Section 8 program, to determine total family income while using the income limits specified by the Department of Housing and Urban Development, which are by county and by family size. (See Appendix M for HUD 2000 Income Limits by County.) The grantee should include a non-monetary default provision in the loan agreement with the business or developer that specifies income screening on all applicants for hire according to CDBG requirements, and that requires the business to provide regular reports to the Grantee on the number of hires and number of TIG hires.

C. Self- Certifications

A self-certification form is one that applicants for hire or employees being retained

fill out certifying their total family income and acknowledging that they anticipate third-party verification. To be valid, a self-certification form must include the employee's home address and must be signed and dated by the employee. Self-certification forms may be used for identifying targeted income group eligibility at the time funding is approved for a job retention activity or when the employee has no income documentation available.

The CDBG program views self-certification forms as a last resort form of income documentation, to be utilized as a preliminary indicator of compliance with a national objective for job retention projects or when other documentation of income is not readily available. (See the Verification Form for Family Income Certification in the Training Manual, Appendix H. At least 51% of all job holders must be verified as income eligible by income documentation. At the time of monitoring CDBG staff will verify the back up documentation of at least 30% of the self-certifications used to support meeting the CDBG requirements.

4. ENVIRONMENTAL REVIEW REQUIREMENTS

A grantee is required to complete an environmental review under federal regulations whenever CDBG funds are used to provide assistance to a business. The review process is set forth at 24 CFR Part 58 and further explained in the State CDBG Grant Management Manual.

As a function of providing a business with direct financial assistance (such as a loan, grant, loan subsidy, loan collateralization, or loan guarantee), the grantee must complete an environmental review for each instance of assistance at the appropriate level of clearance. The local loan review board may conditionally approve each loan subject to completion of an environmental clearance as a special condition of drawdown of funds. The project may not begin until the environmental clearance has been completed including any applicable noticing requirements and approved in writing by Department staff, and the environmental review record must be placed in the public information file.

Appendix O to this training manual provides detailed guidance on the environmental review process for economic development activities.

5. LABOR STANDARDS

CDBG-assisted projects may be subject to the payment of Federal labor standards and provisions. The Department will monitor for compliance with Federal prevailing wage rates. Federal prevailing wages **will be** triggered on the entire project when CDBG funds pay for:

- new construction or rehabilitation;
- on-site improvements in support of new construction; and,

Prevailing wages **will not be** triggered on the entire project in circumstances where CDBG funds pay for:

- land acquisition;
- construction of off-site improvements (only the off-site improvements are subject to prevailing wages);
- permanent working Capital where no construction is anticipated. **Unless there is construction involved in the project and the total project is dependent on the CDBG financing.**
- construction of less than \$2,000.

When CDBG funds are being used for equipment purchases and installation:

- Davis-Bacon wages are triggered for the labor used to install the equipment when the installation of equipment becomes integral to the building housing it; this point has been determined to be when installation costs are equal to or more than 13% of the value of the equipment;
- prevailing wages are not triggered for the labor associated with equipment purchase and installation of "roll-in" or "plug-in" types of equipment not integral to the structure.

6. OTHER REQUIREMENTS RELATED TO CDBG FUNDS

In addition to environmental review and labor standards requirements, other federal “overlay” requirements apply to the use of CDBG funds. These requirements should be addressed in the applicant’s Program Guidelines to insure compliance. These requirements are:

- Acquisition, Anti-Displacement, and Relocation. If the grantee uses CDBG funds to acquire property, then it must comply with CDBG acquisition procedures. The grantee must minimize the displacement of persons (families, individuals, businesses, nonprofit organizations, and farms) that may result from CDBG-funded activities. (24 CFR 570.606). If the displacement occurs, then the grantee must insure that the affected parties are provided with adequate relocation assistance (24 CFR 570.606).
- Equal Opportunity/Section 3. The grantee must insure that no one is being excluded from participating in, or benefiting from, the EF program on the basis of race, color, religion, national origin, or sex (24 CFR 570.602). If CDBG-funded construction projects exceed specified amounts, then the grantee must seek to target contracts and employment opportunities to qualifying businesses and persons (24 CFR 570.602). Grantees must have a system in place for tracking the “protected class” status of loan applicants, loan recipients, job applicants and job recipients (24 CFR 570.607).
- **Procurement.** Grantees must utilize procedures in procuring services, supplies, equipment, and construction contracts that maximize free and open competition and the efficient, economical use of the CDBG funds (24 CFR

85.36).

- **Contractor Eligibility and Certification.** Grantees must insure that contractors are not on the federal list of ineligible contractors and that they are licensed and in good standing (24 CFR 570.609).

V. GLOSSARY

This Glossary contains the most frequently used Program definitions. For a more complete listing, consult Section 7054 of the State CDBG Program regulations.

"ACT" means Title I of the Housing and Community Development Act of 1974, 42 USC 5301 et seq., as amended.

"ACTIVITY" means any single eligible undertaking carried out as part of an applicant's program under the State CDBG Program.

Discussion: In general, the State Program follows the eligible activities described in the Code of Federal Regulations, Title 24, Part 570, Subpart C, Eligible Activities, Section 570.482, and the applicant may use this as a guideline. However, states are permitted some discretion in interpreting eligible activities. Questions regarding eligible activities should be directed to the Department's CDBG staff. Additionally, there have been statutory changes to the list of eligible activities. The Department shall accept for review any activity under the Act.

"COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS", "CDBG FUNDS", "GRANT FUNDS" means any funds allocated by a grant agreement pursuant to the regulations or previously funded to nonentitlement jurisdictions by HUD pursuant to their authority under the Act.

"DEPARTMENT" means the State of California, Department of Housing and Community Development.

"DIRECTOR" means the Director of the Department.

"ECONOMIC DEVELOPMENT" means a public investment designed to leverage private sector capital for job-creating and revenue-producing projects that create jobs or retain private sector jobs, principally for targeted income group persons or meets another national objective.

"FUNDING CYCLE" means the annual period of time during which HUD makes funds available to the State for distribution to local governments pursuant to the Act, and includes the period of time during which the Department solicits applications and makes grant awards.

Discussion: While federal funds are usually appropriated by fiscal year beginning October

1 and ending September 30, the period of time during which federal funds are made available to the states for distribution to local units of government may vary from this time period.

"FULL-TIME EQUIVALENT JOB" means a "job" that is aggregated from permanent, part-time jobs. The part-time jobs must each provide at least 875 hours of employment per year

"GRANT AGREEMENT" means the contract between the State and the grantee which sets forth the terms and conditions by which State CDBG funds are utilized.

Discussion: A grant is made to an applicant whose application has been approved for funding under the State CDBG Program. The signed Grant Agreement is a legally binding contract between the State and the grantee to undertake specific activities in accordance with the program.

"GRANTEE" means a unit of general local government which has been awarded funds provided pursuant to this subchapter for a specific purpose.

"HOUSEHOLD" means persons occupying a housing unit as the place of residence.

"HOUSING ELEMENT" means the part of a city's or county's general plan as required by Article 10.6 (commencing with Section 65580) of Chapter 3 of Division 1 of Title 7 of the Government Code.

"HUD" means the United States Department of Housing and Urban Development.

"INFRASTRUCTURE" means the physical systems such as roads, sidewalks, street lights, and water and sewer facilities necessary to provide services to a business expansion or retention project.

"MICROENTERPRISE" means a business that has five or fewer employees, one or more of whom owns the enterprise.

"PERMANENT JOB" means a full-time or full-time equivalent job created or retained by an activity funded under the Economic Development Allocation which is directly related to the expansion or retention of a business. To be considered "full-time", a job must provide at least 1,750 hours per year. Part-time jobs that provide at least 875 hours per year of employment may be aggregated to arrive at a full-time equivalent job of at least 1,750 hours per year. Fractions of full-time equivalent employment are not counted towards meeting the program's public benefit requirements.

"POVERTY PERSONS" means those persons whose incomes are below the poverty level based on the latest available U.S. Census data.

Discussion: The Department is using the 1990 U.S. Census data to compute the applicant's

poverty index (Section 7078.1 of the State CDBG regulations). "PROGRAM" means all of the activities funded in whole or in part with State CDBG funds.

Discussion: The grantee may have more than one activity funded in an application, which addresses its most pressing housing, economic development, or public facilities need. The "program" includes all of these activities.

"PROGRAM INCOME" means amounts earned by a unit of general local government or its subrecipient that were generated from the use of CDBG funds.

"SEASONAL JOB" means a job (such as a job in a vegetable packing plant) which can be counted as a permanent job only if the duration of the season is long enough for the job to be considered as the person's principal occupation or the job provides a substantial portion of the household's income.

"SLUMS AND BLIGHT" means a blighted area or structure characterized by one or more of the conditions listed in Section 7056(b)(3) of the State CDBG regulations and as documented under HUD regulations specified in the Code of Federal Regulations, Title 24, Part 570.483(c).

"START-UP" means a business that has been in operation for less than three years.

"STATE" means the State of California.

"TARGETED INCOME GROUP" means households intended to be the principal beneficiaries of the State Community Development Block Grant Program. The term Targeted Income Group includes the component "Lowest Targeted Income Group" unless otherwise specified. Applicants shall use county income limits provided annually by the Department in determining program benefit to the Targeted Income Group. These income limits are based on the latest HUD estimate of area median family income with adjustments for unusually low income areas. For a family of four, the "Targeted Income Group" limit is 80 percent of the latest HUD estimated or adjusted area median family income. For a family of four, the income limit for lowest Targeted Income Group limit is 50 percent of the latest HUD estimated area median family income. Income limits for other household sizes are based on household size adjustment factors. For the purposes of this Program, the income limits published by the Department shall be used.

"URGENT NEED" means a condition, which poses a serious and immediate threat to the health or welfare of the community, which is of recent origin, which a community cannot finance and no other funds are available. A condition, which has existed longer than 18 months, shall not be considered to meet the standard of urgency.

**APPENDIX A: GUIDELINES AND OBJECTIVES FOR EVALUATING
A CDBG ECONOMIC DEVELOPMENT PROJECT**

(Exhibit I of Appendix B details procedures for conducting analysis under the guidelines)

GUIDELINES AND OBJECTIVES FOR EVALUATING A CDBG ECONOMIC DEVELOPMENT PROJECT

HUD requires that the state or local government conduct basic financial underwriting prior to the provision of CDBG financial assistance to a business. HUD has developed guidelines that are designed to provide grantees with a framework for financially underwriting and selecting CDBG-assisted economic development projects, which are financially viable and will make the most effective use of the CDBG funds. The State CDBG program requires that these HUD underwriting guidelines be utilized to determine whether a proposed CDBG subsidy is *appropriate* to assist a business expansion or retention project. In addition, the project must be reviewed to determine that a minimum level of *public benefit* will be obtained from the expenditure of the CDBG funds in support of the project.

HUD's underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes.

The objectives of the underwriting guidelines are to ensure:

- (1) that project costs are reasonable;
- (2) that all sources of project financing are committed;
- (3) that to the extent practicable, CDBG funds are not substituted for non-Federal financial support;
- (4) that the project is financially feasible;
- (5) that to the extent practicable, the return on the owner's equity investment will not be unreasonably high; and
- (6) that to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project;
- (7) that the projected level of public benefit is reasonable.

Project Costs are Reasonable. Reviewing costs for reasonableness is important. It will help avoid providing either too much or too little CDBG assistance for the proposed project. Therefore, it is suggested that the grantee obtain a breakdown of all project costs and that each cost element making up the project be reviewed for reasonableness. The amount of time and resources expended evaluating the reasonableness of a cost element should be commensurate with its cost.

For example, it would be appropriate for an experienced reviewer looking at a cost element of less than \$10,000 to judge the reasonableness of that cost based upon his or her knowledge and common sense. For a cost element in excess of \$10,000, it would be more appropriate for the reviewer to compare the cost element with a third-party, fair-market price quotation for that cost element. Third-party price quotations may also be used by a reviewer to help determine the reasonableness of cost elements below \$10,000 when the reviewer evaluates

projects infrequently or if the reviewer is less experienced in cost estimations. If a reviewer does not use third-party price quotations to verify cost elements, then the reviewer would need to conduct a cost analysis using appropriate cost estimating manuals or services.

Particular attention should be paid to any cost element of the project that will be carried out through a non-arm-length transaction. A non-arms-length transaction can occur when the business entity receiving the CDBG assistance procures goods or services or acquires property from itself or from another party with whom there is a financial interest or family relationship. If abused, non-arms-length transactions misrepresent the true cost of the project.

Commitment of All Sources of Project Financing. A review of all proposed sources of funding for a project should be conducted to evaluate whether the project is financially feasible given the availability and commitment of other proposed funding sources. This review is necessary to ensure that time and effort is not wasted on assessing a proposal that is not able to proceed.

To the extent practicable, prior to the commitment of CDBG funds to the project, the project review should verify that: sufficient sources of funds have been identified to finance the project; all participating parties providing those funds have affirmed their intention to make the funds available; and the participating parties have the financial capacity to provide the funds.

Avoid Substitution of CDBG Funds for Non-federal Financial Support. The proposed CDBG economic development project should be reviewed to ensure that, to the extent practicable, CDBG funds will not be used to substantially reduce the amount of non-Federal financial support for the activity. This will help the grantee to make the most efficient use of its CDBG funds for economic development.

To reach this determination, the reviewer should conduct a financial underwriting analysis of the project, including reviews of appropriate projections of revenues, expenses, debt service and returns on equity investments in the project. The extent of this review should be appropriate for the size and complexity of the project and should use industry standards for similar projects, taking into account the unique factors of the project such as risk and location.

Because of the high cost of underwriting and processing loans, many private financial lenders may not finance commercial projects that are less than \$100,000. A reviewer should familiarize themselves with the lending practices of the financial institutions in the community. If the project's total cost is one that would normally fall within the range within which financial institutions participate, then the project review should determine the following:

- A. Private debt financing--whether or not the participating business (or other entity having an equity interest) has applied for private debt financing from a commercial lending institution and whether that institution has completed all of its financial underwriting and loan approval actions resulting in either a firm commitment of its funds or a decision not to participate in the project; and

- B. Equity participation--whether or not the degree of equity participation is reasonable given general industry standards for rates of return on equity for similar projects with similar risks and given the financial capacity of the entrepreneur(s) to make additional financial investments.

If the project involves providing assistance to a microenterprise owned by a low- or moderate-income person(s) (Targeted Income Group person), then the reviewer might only need to determine that non-Federal sources of financing are not available (at terms appropriate for such financing) in the community to serve the low-or moderate-income entrepreneur.

Financial Feasibility of the Project. The public benefit a grantee expects to derive from the CDBG assisted project (a separate eligibility requirement) will not materialize if the project is not financially feasible. To determine if there is a reasonable chance for the project's success, the grantee should evaluate the financial viability of the project. A project would be considered financially viable if all of the assumptions about the project's market share, sales levels, growth potential, projections of revenue, project expenses and debt service (including repayment of the CDBG assistance if appropriate) were determined to be realistic and met the project's break - even point (which is generally the point at which all revenues are equal to all expenses). Generally speaking, an economic development project that does not reach this break - even point over time is not financially feasible. The following should be noted in this regard:

- A. Some projects make provisions for a negative cash flow in the early years of the project while space is being leased up or sales volume built up, and the project's projections should take these factors into account and provide sources of financing for such negative cash flow; and
- B. It is expected that a financially viable project will also project sufficient revenues to provide a reasonable return on equity investment. The reviewer should carefully examine any project that is not economically able to provide a reasonable return on equity investment. Under such circumstances, a business may be overstating its real equity investment (actual costs of the project may be overstated as well), or it may be overstating some of the project's operating expenses in the expectation that the difference will be taken out as profits, or the business may be overly pessimistic in its market share and revenue projections and has downplayed its profits.

In addition to the financial underwriting reviews carried out earlier, the reviewer should evaluate the experience and capacity of the assisted business owners to manage an assisted business to achieve the projections. Based upon its analysis of these factors, the reviewer should identify those elements, if any, that pose the greatest risks contributing to the project's lack of financial feasibility.

Return on Equity Investment. To the extent practicable, the CDBG assisted activity should not provide more than a reasonable return on investment to the owner of the assisted activity. This will help ensure that the grantee is able to maximize the use of its CDBG funds for its economic development objectives. However, care should also be taken to avoid the situation where the owner is likely to receive too small a return on his/her investment, so that his/her motivation remains high to pursue the business with vigor. The amount, type and terms of the CDBG assistance should be adjusted to allow the owner a reasonable return on his/her investment given industry rates of return for that investment, local conditions and the risk of the project.

Disbursement of CDBG Funds on a Pro Rata Basis. To the extent practicable, CDBG funds used to finance economic development activities should be disbursed on a pro rata basis with other funding sources. Grantees should be guided by the principle of not placing CDBG funds at significantly greater risk than non-CDBG funds. This will help avoid the situation where it is learned that a problem has developed that will block the completion of the project, even though all or most of the CDBG funds going in to the project have already been expended. When this happens, a grantee may be put in a position of having to provide additional financing to complete the project or watch the potential loss of its funds if the project is not able to be completed. When the grantee determines that it is not practicable to disburse CDBG funds on a pro rata basis, the grantee should consider taking other steps to safeguard CDBG funds in the event of a default, such as insisting on securitizing assets of the project.

Standards for Evaluating Public Benefit. Besides reviewing a project under these underwriting factors, the project must be reviewed to determine that at least a minimum level of public benefit is obtained from the expenditure of the CDBG funds. The minimum standards for each type of public benefit are as follows:

- A. The project must lead to the creation or retention of at least one full-time equivalent job per \$35,000 of CDBG funds used; or
- B. Provide goods or services to residents of an area, such that the number of Targeted Income Group persons residing in the areas served by the assisted business amounts to at least one Targeted Income Group person per \$350 of CDBG funds used.

**APPENDIX B: SAMPLE PROGRAM GUIDELINES FOR A
REVOLVING LOAN FUND**

CITY OF SAMPLE REVOLVING LOAN FUND PROGRAM GUIDELINES

1.0 INTRODUCTION

The City of Sample Revolving Loan Fund (RLF) is designed to provide the critical and necessary capital needs of businesses and real estate projects in Sample. The RLF is capitalized with funds from the State of California Community Development Block Grant (CDBG) Program. The intent of the RLF is to provide "appropriate" assistance to businesses and real estate development projects, which in turn will create and/or retain jobs, along with increasing the commercial and industrial base of the community.

An RLF, in this context, refers to a loan program in which loan repayments are "revolved" or "recycled" to be loaned again in the same program. Therefore, the initial funds that capitalize the Program will be used again to create additional jobs, assist more businesses and projects, and provide significant benefits beyond the RLF's initial loans.

2.0 PURPOSE AND OBJECTIVES

2.1 PURPOSE:

The RLF is designed to provide no more than one-half of a project's total financing requirements. The RLF will only provide the funds necessary to bridge the "financial gap" that allows the project to move forward. The RLF is targeted to businesses and projects that have the greatest potential for long-term job creation/retention, particularly jobs created and/or retained for low and moderate income persons.

The RLF will assist businesses and projects that start-up, expand, and/or locate within the city limits of Sample. The RLF proceeds can be used to finance:

- A. Working Capital/Lines of Credit,
- B. Inventory Purchase,
- C. Equipment Acquisition,
- D. Real Property Acquisition, Construction, Rehabilitation, and
- E. Furniture/Fixtures.

2.2 ECONOMIC BENEFITS & OBJECTIVES:

The following elements are critical in the selection of loans for the RLF Program:

- Existence of a "financial gap" that hinders the business or project from obtaining or affording the project without the RLF.
- Ø That the terms and conditions of the RLF are "appropriate."
- Ø That a sufficient number of jobs will be created or retained as a result of the CDBG-assisted project to justify CDBG assistance.
- At least 51% of the jobs created and/or retained must be from the Target Income Group (TIG). The TIG is a low/moderate income person whose household income does not exceed 80% of county median household income. In order to meet the criterion for created/retained jobs, the employees must be from the TIG at the time they are hired or retained. For job retention projects, an income self-certification will be conducted on all employees prior to the approval of the loan. And, after the loan is funded, a representative sample of the retained employees will be income screened to determine the accuracy of the self-certifications. For job creation projects, all of the TIG employees will be income screened.
- The loan meets the RLF's underwriting criteria.

2.3 SOURCE OF FUNDING:

The source of funding for the RLF is the State of California Community Development Block Grant Program. Loans are not from the City's General Fund or from the Redevelopment Agency.

3.0 DESCRIPTION OF FUNDING

3.1 GUIDELINES & FEATURES:

There is no minimum or maximum RLF loan amount. However, RLF loans above \$250,000 will require additional approval by the State Department of Housing and Community Development (HCD).

- **Leveraging:** The RLF Program's overall goal is to leverage a realistic pledge of dollars from equity and/or debt for every one RLF dollar loaned. On a case by case basis this leverage requirement may be waived. A private dollar can be either a loan or owner equity. Owner equity can be cash and/or land. The land is counted only for construction projects.

Expenditures made by the loan applicant prior to the RLF loan award are not counted unless made as part of the submittal, and made within 60 days of the RLF loan submittal, related to and in anticipation of such submittal.

- **Loan Terms:** Up to twenty-five years, depending on the asset being financed, the "financial gap," and the demonstrated need for the RLF funds.
- **Interest Rate:** The interest rate is set based on the needs and demonstrated "financial gap" of each loan. If the financial gap is the availability of capital, the interest rate shall be near market rates for the asset being financed. If the financial gap is the cost of capital (rate, term or collateral requirements), then the interest rate is set by evaluating the financial information to determine at what interest rate the project would be viable.
- **Loan Fee:** One point, with a minimum of \$100. This fee is for costs not paid with CDBG grant funds or program income.
- **Prepayment Penalty:** None
- **Deferral of Payments:** On a case by case basis, determined based on the financial gap."
- **Job Creation/Retention:** One full time equivalent job (1,750 hours annually) per \$35,000 loaned shall be achieved for each loan. Two permanent part-time jobs (at least 875 annually) can be aggregated to count as one full time equivalent job. For loans meeting the national objective of principally benefiting the Targeted Income Group (TIG), at least 51% of the jobs created/retained shall be held by TIG persons.
- **Collateral Requirements:** All RLF loans shall be fully secured by collateral in order to maintain the RLF Program. No unsecured loans shall be made. Types of collateral may include:
 - Liens on real property,
 - Deeds of Trust,
 - Liens on machinery, equipment, or other fixtures,
 - Lease assignments, as appropriate,

- Personal and/or corporate guarantees, as appropriate, and
- Other collateral, as appropriate.

3.2 GENERAL ADMINISTRATIVE FEATURES:

- Confidentiality of Client Financial Information, as allowed by law.
- Equal Opportunity/Affirmative Action Policy.
- Attorney review of all contracts and legal forms.
- Monitoring and Reporting Forms.
- Collection and Foreclosure Policy.
- Compliance with HCD and HUD regulations.
- The Business Development Corporation will be responsible for overall project marketing, loan evaluation, loan packaging, and monitoring.

3.3 PROJECT EVALUATION CRITERIA:

- The number of jobs created/retained and the percentage benefiting members of the Targeted Income Group.
- The amount of private dollars leveraging RLF funds.
- The financial viability of the proposed project.
- The demonstrated need for the RLF funds ("appropriate" test).

3.4 GENERAL CREDIT REQUIREMENTS:

A Loan Applicant must be:

- Be of good character,
- Show ability to operate a business successfully,
- Have enough borrowing ability or equity to operate, with the RLF loan, on a sound financial basis,
- Show the proposed loan is of sound value or reasonably secure to assure repayment, and
- Show that the past earning record and future prospects of the firm indicate ability to repay the loan and other fixed debt, if any, out of the profits.

3.5 LOAN PACKAGING:

The staff of the Sample Business Development Corporation will be responsible for RLF loan packaging activities, including review of all proposals presented to the Loan Advisory Board (LAB).

3.6 LOAN REVIEW:

The Loan Advisory Board (LAB) shall be responsible for reviewing funding proposals and making recommendations to the City staff. The City Manager of the City of Sample will make the final decision on approval or denial of all loan applications submitted, including terms and conditions of loan agreements. The LAB shall be comprised of:

- One representative of the Sample Fair Lending Action Group(SLAG),
- One representative of the Business Development Corporation Board, and
- One representative of the business community appointed by the City.

All projects meeting the established criteria shall be brought before the LAB.

3.7 LENGTH OF REVIEW PROCESS:

On average, the RLF review process takes six to eight weeks from submittal of a complete loan application through LAB review. Loan funds can be disbursed two to three weeks after signing the RLF documents, depending on the financing (loans over \$50,000 have to be reviewed and approved by HCD). Conditional commitments can be made prior to final approval from another funding source. Every effort will be made to facilitate the process to coincide with the other funding source and the project's requirements.

3.8 LINKING JOBS WITH LONG-TERM UNEMPLOYED:

The City of Sample and the Business Development Corporation work closely with the Job Training Agency (JTA) to support the Workforce Investment Act (WIA) programs and services that provide assistance to the unemployed and low and moderate income persons. With the assistance of the State Employment Development Department, the three agencies regularly promote training activities and the labor market to potential employers in the area. Early and consistent involvement with each loan applicant will be an integral policy of the RLF Program.

The training, recruitment and placement activities currently operating in the community constitute the primary vehicle for insuring that the unemployed, under-employed and low and moderate income persons are linked with the jobs created through the RLF Program. These programs provide training and can be custom tailored specifically to meet a company's needs. Loan recipients in the RLF will be provided with a detailed description of the services and benefits, including financial, of participation in the Workforce Investment program and will be referred to the job training agencies. The City will use cooperative agreements with the job training agencies to refer all borrowing companies to the WIA-funded program for prospective employers. All loan recipients will be required to sign a Loan Agreement. This Loan Agreement includes a Three-Party Employment Agreement which lists specific jobs to be created with RLF funds and designates the job training agency as the primary personnel resource for all available positions. The job training agency will provide 100% income verification of all hires placed by them.

4.0 ELIGIBILITY

4.1 ELIGIBLE APPLICANTS:

Eligible applicants include on-going and start-up private, for profit business concerns, corporations, partnerships, sole proprietorships and cooperatives that are incorporated and licensed, and are located in or expanding to Sample. The project to be financed with the RLF Program must be within the Incorporated area of Sample.

4.2 ELIGIBLE USES:

The project must be commercial or industrial. RLF funds can be used for construction and permanent financing, working capital, inventory, equipment, real property acquisition, construction and rehabilitation.

4.3 INELIGIBLE USES:

Projects must be located in the City of Sample. Projects cannot be residential in nature. Projects must have reasonable assurance of repayment. Projects are not eligible if they create a conflict of interest pursuant to California Government Code S87100 et seq for any current City or Business Development Corporation employee or Loan Advisory Board (LAB) member. Projects must create or retain jobs, primarily for the Targeted Income Group, and must leverage private or equity funds.

4.4 ELIGIBLE PROJECTS:

Project eligibility is based on the project satisfying the CDBG Program's national objective of principally benefiting targeted income group persons through job creation/retention, or aid in the elimination of slums or blight, or meet a community development need having a particular urgency. Additionally, the eligibility of a project is dependent on the appropriate determination being made to justify the provision and extent of CDBG assistance.

4.5 ELIGIBLE COSTS:

- Land costs, including engineering, legal, grading, testing, site, mapping and related costs associated with the acquisition and preparation of land.
- Building costs, including real estate, engineering, architectural, legal and related costs associated with acquisition, construction and rehabilitation of buildings including leasehold improvements.
- Working capital, inventory, furniture, fixtures, machinery and equipment.

4.6 INELIGIBLE COSTS FOR CDBG LOANS:

- Costs incurred prior to CDBG grant execution, submittal of the loan application, and environmental review requirements, except for private leverage as specified in Section 3.1.
- Costs other than those listed as eligible in Section 4.5.

5.0 ROLE OF THE PARTICIPANTS

5.1 ROLE OF THE BUSINESS DEVELOPMENT CORPORATION (BDC):

BDC's staff will, as required:

- publicize and market the RLF;
- screen all applicants for loans;
- refer candidate that are not eligible, do not meet the RLF criteria or need technical assistance to the Small Business Development Center;
- ask promising candidates to submit preliminary information and an application, along with accompanying financial information;
- prepare package, along with recommendation to LAB;
- if approved, assist City with loan processing and closing;
- Once closed, monitor the loan, maintain the loan records, and monitor compliance with job objectives.

5.2 ROLE OF THE LOAN COLLECTION AGENT:

The City of Sample will contract with a local lender to act as the City's loan collection agent. The duties of the collection agent will include the following:

- loan servicing and accounting;
- provide monthly receipts of loan payments to BDC;
- provide quarterly statements on each loan to BDC;
- in concurrence with the City's legal counsel, under take loan collections, including asset liquidation;
- obtain credit reports on all loan applicants and provide such to BDC.

5.3 ROLE OF CITY STAFF:

The City staff will make the daily decisions called for or implied regarding the activities of the RLF. Decisions to foreclose and declare defaults will be the responsibility of the City Manager, in consultation with legal counsel, based upon recommendations of staff and BDC. The City staff will monitor on-going operations of the loan recipient, in conjunction with BDC. Staff will consult and monitor BDC during the term of the contract. Staff will review all reports, financial information and performance reports on each loan during the term of the loan. Staff will serve as the contact for the State Department of Housing & Community Development for the

RLF Program.

City staff will meet with each RLF applicant to ensure that the applicant maintains the documentation required. Staff will brief each applicant on his obligations and requirements of the Program. Additionally, City staff will conduct an environmental review of the project as necessary.

City staff and BDC will refer potential applicants, including those ineligible or denied RLF financing, that need technical and management assistance to the appropriate organization. This will include referrals to the College Small Business Development Center, the SCORE program, and financial institutions. As a condition of the loan, the City, LAB or BDC may require that applicants receive pre- and/or post-loan counseling.

City staff and/or BDC may require applicants who have received loans to undertake business counseling if it appears that the applicants financial position is declining and the RLF loan may become delinquent.

6.0 LOAN SELECTION & APPROVAL PROCESS

6.1 PROCESS:

6.1.(A) MARKETING:

The marketing of the RLF Program will be accomplished by a variety of means. There will be media coverage, marketing brochures, and joint marketing through BDC's existing loan packaging and financial services. Local lenders will recommend clients and projects, when appropriate. The Small Business Development Center, local Realtors, and business associations will also refer potential applicants. The City and BDC will also use existing business and community networks to market the RLF Program.

6.1.(B) PROCEDURE:

Once a potential project has been identified, City and BDC staff will conduct a preliminary review for eligibility with the RLF criteria. If another lending source is more appropriate, or the project does not meet the RLF criteria, the staff will refer the prospective borrower to another organization for assistance.

If the project appears to meet the criteria, the applicant will be asked to submit preliminary information. Preparation and submission by an applicant of preliminary information and supporting documents include, but are not limited to: business and personal tax returns for the last three years or since commencement of operations (whichever is less), business financial statements (balance sheet and income statement) for current year and prior three years, current personal financial statement, credit history, and proposed project summary. Start-up businesses must submit proforma financial statements for the first five years. Real estate projects must

submit pro forma projections for the first five years, and pre-leasing information.

The preliminary information will be reviewed by BDC staff, in consultation with City staff. If the project is viable, a draft loan analysis will be prepared by BDC. If the decision is to decline the request, the BDC will provide the applicant with a written explanation of the denial. If appropriate, referrals to other organizations will be made.

If the review is positive, the applicant will be invited to an application conference with BDC and to submit a formal application to BDC, which will be presented to the LAB for their recommendation. At the application conference, BDC will review with the applicant the formal RLF checklist and required information, forms and financial schedules deemed necessary by BDC or City to complete the loan package. City and BDC will determine project needs/conformance with local requirements, as well as determine the necessary environmental review for the project. City will begin the environmental review as necessary.

The applicant, in conjunction with City, BDC and JTA, will develop the employment plan.

Upon completion of the necessary information, applications will be presented by the BDC to the LAB. The presentation will include a completed RLF Project Evaluation Form (sample attached as Exhibit 2). If the private funds are from equity, then the commitment letter must be from the applicant. The BDC presentation will include a recommendation. This recommendation will include the proposed terms and conditions, based upon the identified "financial gap" and the "appropriate" analysis undertaken by BDC, along with a checklist insuring that the loan meets the RLF guidelines and criteria.

The LAB will decide to recommend approval or to decline the loan request. If declined the applicant will be informed in writing by BDC as to the reason. If recommended, the LAB's recommendation can be under the terms and conditions proposed by BDC, or the LAB can recommend alternative terms and conditions. The LAB recommendation is presented to the City Manager. Prior to City Manager consideration, City staff will review the loan package for completeness and regulatory compliance, as well as final review for compliance with RLF guidelines and criteria.

If the City Manager approves or denies the loan request, the applicant will be notified in writing. If denied, the reasons for denial will be included. City Manager approval shall include a certification statement that, based on his/her review of the staff report and LAB recommendation, the City finds that the CDBG loan is appropriate and that the assistance is commensurate with both the needs of the borrower and level of benefit to TIG persons in addition to other public benefits stemming from the project.

6.1.(C). LOAN CLOSING:

Upon approval by the City Manager, BDC and City will prepare for the loan closing. The Borrower will sign all the necessary documents and agreements. The City will request a

drawdown of funds from the State Department of Housing & Community Development (the timing of the request may vary depending on the project). The BDC will prepare the loan closing documents, prepare title and lien searches, and UCC-1 filings, if appropriate (the sample pre-closing checklist and escrow instructions attached in Exhibits 6, 7A and 7B will be developed and used for each loan closing). City legal counsel will review all agreements and documents, as necessary.

Loan closing will be undertaken by the City with BDC assistance. At the time of closing, the Borrower will be provided with a checklist outlining their obligations under the RLF Program. At closing, or another specified time, funds will be disbursed to the Borrower.

City and BDC will complete any remaining legal, regulatory or other items (Exhibit 8 contains a sample checklist). Monitoring and compliance files will be set-up at this time.

6.1.(D). LOAN MONITORING:

Two separate loan files will be maintained. The first is the legal file which holds all the original loan documentation, along with the original documents. This file shall be kept in the City's fireproof vault for safekeeping. The second is a credit file which shall contain the day-to-day administrative records of the loan. At a minimum the legal file shall include:

- Note
- Loan Agreement, including Non-Financial Employment Plan
- Mortgage
- General Security Agreement
- Personal Guaranty
- Corporate Guaranty
- Subordination Agreement
- Life Insurance Policy and Assignment
- Hazard Insurance Policy and Assignment
- General Resolution
- Certificate of Secretary
- Opinion of Counsel
- Intercreditor Agreement

Exhibit 9 is an explanation of the items in the legal file.

The credit file shall contain, at a minimum, the loan application and financial information associated with the application, credit memo, LAB recommendation, final City approval, disbursement records, reports of site visits, updated financial information provided by borrower, job creation/retention data, etc.

A reporting system will be established for each loan and the loan portfolio as a whole. The report should be up-dated at least quarterly. The BDC shall be responsible for preparation of

this report. The report will be used by BDC and the City to monitor the loans and identify problems. The report will contain the following:

- **Fund Report Balance:** A monthly summary of the beginning fund balance, principal and interest recaptured during the month, disbursements made during the month and funds committed but not yet disbursed, and amount remaining in the RLF which is unencumbered. The monthly receipts from the lender on each loan will serve as the basis for this report.
- **Portfolio Summary Report:** A quarterly summary of the total loans outstanding and authorized loans. The report shall include a quarterly statement on each loan, prepared by the lender. The quarterly report shall include the last payment date and loan balance. Delinquent loans shall be identified and a summary of actions to date to collect delinquent loans shall be included.
- **Employment Report:** A quarterly report on each project detailing the jobs created/retained, and those hired that meet the Targeted Income Group.
- **Loan Loss and Delinquent File:** A list of all loans that have been classified as uncollectable and a summary of foreclosure procedures to date on the loan. Loans that are delinquent will also be listed, along with a summary of recommended steps, and steps taken to date.
- **Tickler File:** A listing of the current loan portfolio and dates for receipt of financial statements, employment information, renewal of UCC-1 filings, review date, dates for insurance renewal and other information.

In addition, a loan monitoring file will be established which will include a summary of the monitoring requirements of the State Department of Housing and Community Development. A tickler file will be part of this overall file to insure that loan and RLF Program monitoring is undertaken and completed.

EXHIBIT I

LOAN UNDERWRITING GUIDELINES

The loan underwriting policies of the City of Sample Revolving Loan Fund (RLF) are designed to insure the Program's on-going viability, assist businesses that could not proceed without the RLF, and ensure that the RLF assistance is "appropriate."

HUD UNDERWRITING GUIDELINES:

The City of Sample has adopted the HUD underwriting guidelines to determine whether a proposed CDBG subsidy is *appropriate* to assist the business expansion or retention. In addition, the project will be reviewed to determine that a minimum level of *public benefit* will be obtained from the expenditure of the CDBG funds in support of the project.

The objectives of the underwriting guidelines are to ensure:

- that project costs are reasonable;
- that all sources of project financing are committed;
- that to the extent practicable, RLF funds are not substituted for non-Federal financial support;
- that the project is financially feasible;
- that to the extent practicable, the return on the owner's equity investment will not be unreasonable high;
- that to the extent practicable, RLF funds are disbursed on a pro rata basis with other financing provided to the project; and
- sufficient public benefit will be received from the expenditure of RLF funds.

Project Costs are Reasonable

All project costs will be reviewed for reasonableness, and to avoid providing either too much or too little RLF assistance. The amount of time and resources expended evaluating the reasonableness of a cost element shall be commensurate with its costs. In some instances, it will be necessary to obtain third-party, fair-market price quotations or a cost element. Particular attention will be documenting the cost elements in a nonarms-length transactions.

Procedures:

1. Start with Sources and Uses of Funds.
2. For each Use of Funds, determine if costs are reasonable.

- a. For construction, machinery, equipment. Determine if the costs are estimated by a third-party (e.g. architect, engineer, equipment supplier, etc.) Determine if the estimates are included in the application. Determine if the contingency is adequate.
 - b. For land, determine if the price is based upon fair market value. If not, determine what is the fair market value and how was price determined. Obtain an appraisal or an opinion of fair market value.
 - c. For development costs (building fees, architectural/engineering costs, financing costs, franchise fees, etc.), determine if these costs are itemized and supported by contracts or other documentation.
 - d. For working capital, compare the amount of working capital to industry averages, risk, historical needs of the business and the projected need. Analyze business financial statements, projections, operating cycle and financial ratios.
3. A higher level of review will be required if there are no third party estimates.
 4. Sources of information:
 - Sources and Uses of Funds statement
 - Financial Statements and Projections
 - Industry Averages (Robert Morris)
 - Third party costs estimates
 - Building Department/Public Works
 - Realtors
 - Appraisers
 - Architects/Engineers
 - Contractors
 - Equipment Suppliers
 - Other similar projects

Commitment of All Sources of Project Financing

Prior to the commitment of RLF funds to the project, a review shall be conducted to determine if sufficient sources of funds have been identified and committed to the project, and the participating parties have the financial capacity to provide the funds to ascertain if the project is viable and will move ahead in a timely manner. In certain circumstances, the RLF may commit its funds in advance of final commitments from other funding sources. However, to conduct the underwriting analysis, the approximate terms and conditions of the other funding sources should be known. Final commitments from the other funding sources will be required, with the

substantially similar terms and conditions as used in the underwriting analysis, will be required prior to any loan closing or disbursement of funds.

Procedures:

1. Start with Sources and Uses Form.
 - a. For all sources of funds, determine if there is evidence verifying commitment or intent to commit.
 - b. For debt sources, be in receipt of letters of intent or interest which specify the level of commitment and terms/conditions of the loan. The proposed terms should be reflected in the business projected debt schedule and in the financial projections. Determine if actual loan packages have been submitted to lenders.
 - c. For equity sources, determine if the equity injection is verified on the business or personal financial statements. Or if the equity is provided by an investor, obtain evidence of the level and terms of commitment (e.g. letter of intent with accompanying financial statement verifying availability of funds).
2. Sources of information:
 - Sources and Uses of Funds
 - Business and Personal Financial Statements
 - Letters of intent/interest from lenders, partners and investors

Avoid Substitution of CDBG Funds for Non-federal Financial Support

The project will be reviewed to ensure that, to the extent practicable, RLF funds will not be used to substantially reduce the amount of non-federal financial support for the project to make the most efficient use of the RLF funds.

In order to receive RLF funds a project must have a "financial gap." This gap must be documented. There are three types of financial gaps, two are discussed below, and the third is discussed under the criteria of "Return on Equity Investment." One project may have two different gaps. The types of gaps are as follows:

- A. Unavailability of Capital: The project can afford the cost of financing, but is unable to obtain the funds from either debt and/or equity sources. In regards to debt, the gap may be a result of a lender's loan to value requirements or the inherent risk of the industry or project. For example, the lender will only loan 70% of the project's cost. In this case, the business may not have the cash to

bridge the gap, or if the business bridges the gap, it's cash flow may be so restricted as to jeopardize the business. In order to document this gap, several steps need to be undertaken. The lender needs to be contacted to determine if there is any ability to increase the size of their loan. Other lending sources, both public and private, need to be explored. This includes looking at the business owner(s) personal financial statements for potential funds, including home equity loans. Finally, in addition to looking at the business and personal financial statements and tax returns, a pro forma cash flow analysis needs to be prepared and analyzed, with and without RLF funds, to demonstrate the gap.

The terms and conditions of a loan under this gap analysis should be comparable to the market.

- B. Cost of Capital: The project cannot support the interest rate, loan term and/or collateral requirements of a lender. In analyzing this gap, discussions with the lender are important to determine any flexibility in terms. A single project may not be able to support the rate, terms and collateral requirements, or may just face a single hurdle. In addition, the gap may only exist in the early years of the project. To determine the gap, business and personal financial statements and tax returns shall be analyzed. Sources of equity shall be explored. Public and private funding sources that would bridge the gap shall be evaluated. Pro forma cash flow analysis shall be developed with and without the RLF funds to demonstrate the gap. Depending on the gap, the terms or rate shall be adjusted to a rate that allows the project to proceed but are not too generous. Terms can be adjusted to allow for deferrals of principal and /or interest, or to allow loans to be amortized over a longer period. Interest rates can be adjusted, including increases in the rate over time as cash flow allows.

Procedures:

1. Review the Sources and Uses to determine if other sources of funds are available (e.g. SBA, RD, business, personal or investor equity, etc.)
2. If the need for RLF funds is based upon a lender's loan-to-value requirements, determine if this requirement is reasonable and based upon the project's risk and location.
3. If the need is based upon the cost of funds, then conduct a review of the financial information to validate the need for the RLF funds.
 - a. Review historical and projected financial statements.
 - b. Determine if revenues, expenses, debt service, officer's salaries, owner's draw, net operating income are reasonable via a

comparison of historical financial information and industry averages (Robert Morris).

- c. Review projections with and without CDBG funds. Determine if the project can support more debt within prudent underwriting guidelines. Determine if net operating income, owner's draw, and the degree of equity participation is reasonable.

4. Sources of information:

- Sources and Uses of Funds
- Financial Statements
- Projections
- Industry Averages (Robert Morris)
- Other Financing Programs
- Lenders

Financial Feasibility of the Project

Each project will be examined to determine the financial viability of the project, and thus the reasonable assurance that the public benefit will be realized. The current and past financial statements for both the business and individuals must be analyzed, along with tax returns and projections. The assumptions behind the projections must be critically analyzed. Income and expense costs shall be evaluated and compared historically, where applicable, and compared to industry averages (using guides such as Robert Morris' Annual Financial Statements). Project costs, including both hard and soft costs, must be determined to be reasonable. Accurate project costs are vital to determining project feasibility.

As part of the financial analysis, the past, current, and projected financial data shall be analyzed to determine if the job estimates are reasonable and supportable. Labor costs shall be looked at the break-even point. In addition, labor costs shall be checked against industry averages. Variations should be explained in the loan analysis.

The terms and conditions of the RLF loan must be "appropriate." In general, the interest rate shall be set at a rate where available cash flow is able to meet debt obligations, after other obligations are met, with enough cash flow remaining to operate successfully. The loan term typically is based in the asset being financed. The term should not exceed the economic life of the asset being financed. However, a longer loan amortization schedule, with the loan due at the end of the economic life may be justifiable.

Each loan shall include a written explanation of the "appropriate" analysis that was undertaken, and the reason the terms and conditions of the loan were approved.

Financial Analysis. Historical and projected financial statements will be subject to

financial analysis to determine the gap, and structure the terms and conditions of the RLF loan, as discussed above, but also to determine that the project is feasible. In addition, using prudent underwriting guidelines, demonstrating that the proposed loan is of sound value and that past earnings and future prospects indicate an ability to meet debt obligations out of profit.

Information that will be required to be submitted by the applicant will be depend on the project, ownership structure and whether it is an on-going or start-up business. In general, the information required is outlined in the RLF checklist in the exhibits.

The financial analysis will differ depending on whether the business is a start-up or existing business. The analysis will include for existing businesses a spread of the current and financial statements to determine trends. The pro forma statements will then be compared to these past statements. Financial ratios will be analyzed. The statements and ratios will be compared to industry averages. For start-up business the projections will be analyzed and ratios developed, and both compared to industry averages.

Ratios that will be analyzed include:

- Current Ratio: current assets/current liabilities. This ratio is a rough indication of a firm's ability to service its current obligations. A ratio of 2:1 is considered secure.
- Quick Ratio: cash & equivalents plus accountants & notes receivable/current liabilities. This ratio is a refinement of the current ratio. A ratio of 1:1 usually indicates ample liquidity.
- Cash Flow Coverage: net profit & depreciation & depletion-amortization expenses/current portion of long term debt. This ratio is a measure of the ability to service long term debt.

Another coverage ratio is: earnings before interest & taxes/annual interest expenses. This ratio is a measure of a firm's ability to meet interest payments. A cash flow coverage of 1.25 debt service shall be used as a guideline.

- Debt to Worth: total liabilities/tangible net worth. This ratio the relationship between debt and a businesses net worth. A lower ratio is an indication of greater long-term financial safety and greater flexibility to borrow. In general, a debt to worth ratio of higher than 5:1 should not be exceeded as a underwriting policy. There are exceptions when the industry average is high due to its capital intensive nature or when projections show the ratio lowering quickly.
- Collateral Coverage: The value of collateral as compared to the amount of the loan. Typical underwriting guidelines suggest that 125% of loan balance be used. However, this is highly dependent on the quality and security of the collateral. In

addition, collateral requirements are a cause of "financial gaps." The RLF shall use 125% as a guideline, which shall only be lowered with specific and detailed analysis and explanation.

- Break-even Analysis: The analysis of the project's ability to support the projected labor costs and additional debt service at its break-even point (BEP) will be analyzed to determine what proportion of the jobs can be supported at that BEP. This will serve as a worst case look at the business' prospects for success, ability to service new debt, etc.

The financial and ratio analyses must be supported by the business plan. The business plan must provide a clear understanding of the project, competition, market strategy, sales estimates, management capacity and other factors.

Lastly, to ensure project feasibility, an evaluation will be conducted of the experience and capacity of the business principals to manage the business and achieve the projections.

Procedures:

1. Perform financial underwriting analysis.
 - a. Spread historical financial statements and projections. Identify any significant differences. Compare to industry averages.
 - b. Review assumptions to projections. Determine if projections are reasonable and supported by market studies, business plan, and historical trends.
 - c. Review financial ratios for project. Compare to industry averages. If significantly different, determine the reasons and impact on feasibility.
 - d. Review cash flow for project. Determine if there is adequate working capital.
 - e. Determine break even point for project, and how much the projections are above the break even point. Determine if the public benefit will be realized at the break even point.
2. Review the business plan, market information, historical financial statements, projections, ratio analysis, break even analysis, spread sheet analysis and management capacity to determine the project feasibility.
3. Sources of information:
 - Historical financial statement

- Financial Projections
- Business plan
- Market and industry information
- Industry Averages

Return on Equity Investment

The return on equity investment is the amount of cash that the investor/business owner is projected to receive in relation to their initial equity. For a sole proprietor, this equates to salary plus net income. To the extent practicable, the RLF should not provide more than a reasonable return on investment to the business owner. This will help ensure that the RLF will maximize the use of RLF funds and not unduly enrich the business owner(s)/investor(s). However, care shall be taken to ensure that the rate of return will not be too low, so that the business owner's motivation remains high to pursue the business with vigor.

If the project's financial returns are projected to be too low to motivate the business and/or investor to proceed with the project then risks of the project outweigh the returns. An inadequate rate of return, adjusted for industry and locational risks, is a third method to determine the gap appropriate to be funded with RLF funds. To analyze this gap, the projected return on investment must be compared to the return on investment on similar projects. If it is shown that a gap does exist, then the RLF financing rate and terms must be set at a rate which provides a return equal to the "market rate." Real estate appraisers and lenders are important sources of information on "market rate" returns.

Procedures:

1. Review projections.
 - a. Review revenues, expenses (including officers' salary/owners' draw), debt service and net operating income. Compare to historical financial information and to industry averages. Determine if these items are reasonable.
 - b. Review indicators of owners' return on equity, including officers' salary, owners' draw, and net operating income. Given the project's risk and local conditions, determine if the return on equity is reasonable compared to industry averages.
2. Review the business and personal obligations. Determine what return on equity is necessary to meet personal and business obligations.
3. If return on equity is above industry averages, adjusted for risk and local conditions, take steps to reduce the return to within a reasonable rate by restricting owners' draw/officers' salary, or adjusting the RLF loan terms.

4. If return is below average, adjust RLF subsidy to bring the rate of return closer to the industry average.
5. Sources of information:
 - Financial projections
 - Historical financial statements
 - Personal financial statements
 - Industry averages

Disbursement of RLF Funds on a Pro Rata Basis

To the extent practicable, RLF funds should be disbursed on a pro rata basis with other funding sources to avoid placing RLF funds at a greater risk than other funding sources. When it is determined that it is not practicable to disburse RLF funds on a pro rata basis, other steps shall be taken to safeguard RLF funds in the event of a default.

Procedures:

1. Review Sources and Uses of Funds. Determine when RLF funds will be expended as compared to other funds.
2. Determine other funding sources' policies towards expenditure of funds. These policies may require the use of RLF funds first. If so, may need to negotiate with other funding sources.
3. If RLF funds are to be expended first, consider actions to safeguard RLF funds (e.g. performance or completion bonds).
4. Sources of information:
 - Sources and Uses of Funds
 - Construction Contracts
 - Lender Requirements/Policies

Standards for Evaluating Public Benefit

Each project will be reviewed to determine if a minimum level of public benefit will be obtained from the expenditure of RLF funds. The minimum standards are:

- The project must lead to the creation or retention of at least one full-time equivalent job per \$35,000 of RLF funds used; or
- The project must provide goods or services to residents of an area, such that the number of TIG persons residing the areas served by the project amounts to at least

one TIG person per \$350 of RLF funds used.

Procedures:

1. Review historical financial statements.
 - a. Review historical labor costs as a percentage of revenues. Compare the percentage to projected labor costs. Determine if the two figures are consistent. If not, obtain an explanation.
 - b. Determine if the number of projected jobs is consistent with the projected increase in labor costs. Compare the labor cost percentage to industry averages.
2. Review the projections.
 - a. Determine if the assumptions used to project revenues and labor costs are reasonable. Determine if revenues and labor costs are supported by market/ industry information and historical financial statements.
3. Determine if project meets minimum public benefit requirements (one full-time equivalent jobs for every \$35,000 in RLF funds, or one TIG resident per \$350 in RLF funds residing in the area served by the project).
4. For infrastructure projects, determine the area of benefit, negotiate fair share contributions, and track jobs from the benefiting business(s) if the projected cost/job is less than \$10,000, or track jobs in the area of benefit if the projected cost per job is \$10,000 or more.

EXHIBIT II

LOAN AGREEMENT

OUTLINE

1. THE LOAN
 - a. Loan/Note
 - b. Term and Repayment
 - c. Purpose
 - d. Employment
 - e. Use of Funds
 - f. Other Loans/Funds
 - g. Disbursement of Funds
2. CONDITIONS OF LENDING
 - a. Note and Loan Agreement
 - b. Security Agreement
 - c. Deeds of Trust
 - d. Guarantees
 - e. Non-Financial Employment Plan Agreement
 - f. Governmental Approval
 - g. Approval of Others
3. EVENTS OF DEFAULT
 - a. Non-payment of Loan
 - b. Non-payment of other indebtedness
 - c. Incorrect Representation of Warranty
 - d. Default in Covenants
 - e. Employment
 - f. Voluntary Insolvency
 - g. Involuntary Insolvency
 - h. Judgments
 - I. Right Upon Default
 - j. Sale/Refinancing/Change of Ownership
4. OTHER DOCUMENTS
5. COLLECTION AGENT
6. WAIVER
7. ATTORNEY FEES

8. EXHIBITS INCORPORATED BY REFERENCE

9. NOTICES

10. HEIRS, SUCCESSORS and ASSIGNS

11. AMENDMENTS

Exhibit A - REPRESENTATIONS AND WARRANTIES

Exhibit B - AFFIRMATIVE COVENANTS OF THE BORROWER

Exhibit C - NEGATIVE COVENANTS OF THE BORROWER

Exhibit D - MISCELLANEOUS

Exhibit E - PROJECT ASSURANCE

Exhibit F EMPLOYMENT PLAN AGREEMENT

Exhibit G BUSINESS ASSISTANCE THREE-PARTY EMPLOYMENT
AGREEMENT

I. General Terms

II. Employment Recruitment

III. Referral

IV. Placement

V. Training

VI. Controlling Regulations and Laws

VII. Indemnification, Assignment Modification and Renewal

VIII. Acceptance

LOAN AGREEMENT

THIS AGREEMENT is made and entered into _____, **2000** by and between the City of Sample, a municipal corporation, (hereafter the "Lender") and _____

_____ (hereafter the "Borrower").

WHEREAS, the Borrower has applied to the Lender for a loan for the purpose of helping to finance a _____ (business); and

WHEREAS, the Borrower has read and agrees to comply with all restrictions and requirements of the loan contained in this Agreement and attached Exhibits, which are incorporated herein by reference; and

WHEREAS, the Lender is willing to make such a loan to the Borrower on the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

1. THE LOAN

a. **LOAN/NOTE:** Subject to the terms and conditions of this Agreement, the Lender hereby agrees to lend the Borrower, and the Borrower hereby agrees to borrow from the Lender and repay the Lender, the amount of \$_____ (hereinafter called "Loan"). The obligation of the Borrower to repay the Lender shall be evidenced by the promissory note (hereafter the "Note") of the Borrower in a form satisfactory to the Lender dated the date on which the Loan is made (hereafter known as the "Closing Date") payable to the order of the Lender for the amount of the Loan with interest on the unpaid principal in the amount of \$332,500 and secured by Third Deed of Trust on the subject property, a UCC-1 filing on all furnishing, fixtures and equipment financed with the Loan, and a personal guarantee by _____.

b. **TERMS and REPAYMENT:** The term of the Loan shall be _____ years from the date the _____ is first open for business. The principal and interest shall be deferred for the first _____ months after the date of opening for business. The Note shall be repayable in _____ equal monthly installments after the deferral. The first monthly installment shall be due and payable on the first day of _____ the month after the date of opening. All payments shall be applied first to interest and then to principal. All payments will be made promptly to the Lender at the addresses specified by the lender. Prepayment of the loan is allowable with no prepayment penalty.

The interest rate on the principal amount of the loan shall be _____ % per annum.

c. **PURPOSE:** The purpose of the Loan is to help finance

_____: The acquisition of land (APN #) and purchase of roll-in and plug-in equipment, furniture and fixtures are to be used the _____ to be developed at the above site in Sample, CA.

d. EMPLOYMENT: As a condition of the Loan, the Borrower agrees to create at a minimum _____ full time jobs, allowing for some full-time equivalents, within _____ months of the Closing Date, defined as the date the Borrower acquires the land. At least 51% of **all** jobs created as a result of this loan will be filled by members of the targeted income group.

e. OTHER LOANS/FUNDS: The Loan is made in combination with other loans/funds described as follows:

Sample Valley Bank	\$662,000
SBA	\$540,000
Cash Equity	\$150,500

The contact for other Loans/Funds is:

Name: Sample Valley Bank	Name: Lake Area EDC
Address: P.O. Box 123 Sample, CA	Address: P. O. Box 456 Sample, CA

Phone:	Phone:
Contact:	Contact:

Prior to disbursement of any funds, Borrower shall provide to Lender evidence satisfactory to Lender that Borrower has executed loan documents for the other funding/loan(s).

f. DISBURSEMENT OF FUNDS: Funds for the purchase of equipment, furniture and fixtures shall be disbursed by Lender as two party checks payable to Borrower and vendor(s) only upon presentation of invoices from said vendor(s), evidencing materials, services or labor provided in connection with the project approved by the Lender. Disbursements for working capital, using the funds, by Borrower shall only be for the approved uses contained in the CDBG Standard Agreement, which has been reviewed by Borrower, and in accordance with State of California Department of Housing and Community Development regulations.

Disbursement of working capital is subject to providing documentation that Borrower has executed other loans for this project and has received the initial disbursement from at least one loan or has expended equity funds in an amount equal to the requested CDBG loan disbursement.

2. CONDITIONS OF LENDING

The obligation of the Lender to make the Loan shall be subject to the fulfillment at the time of closing of each of the following conditions:

a. NOTE AND LOAN AGREEMENT: The Borrower shall have executed and delivered to the Lender this Loan Agreement and the Note in a form satisfactory to the Lender and its Counsel.

b. SECURITY AGREEMENT: The Borrower shall have executed and delivered to the Lender a Security Agreement for a Third Deed of Trust for the subject site, a UCC-1 filing for all equipment, furniture and fixtures financed with the Loan, and personal guarantee of

c. DEEDS OF TRUST: The liens granted to the Lender pursuant to the terms of the Security Agreement, the Promissory Note and the Deed of Trust are or will be, when executed, liens in the respective property described therein, including the proceeds and products thereof.

d. GUARANTEES: The Lender shall have received duly executed personal and corporate guarantee agreements acceptable to the Lender.

e. THREE-PARTY EMPLOYMENT AGREEMENT: The Borrower shall have executed and delivered to the Lender a Three-Party Employment Agreement (Exhibit F).

f. GOVERNMENTAL APPROVAL: The Borrower shall have secured all necessary approvals or consents, if required, of governmental bodies having jurisdiction with respect to any construction contemplated in accordance with the use of proceeds of the Loan. The Borrower shall comply with the Zoning Ordinance of the Sample City Code throughout the development and use of the property described herein.

g. APPROVAL OF OTHERS: The Borrower shall have secured all necessary approvals or consents required with respect to this transaction by any mortgagor, creditor, or other party having any financial interest in the Borrower.

3. EVENTS OF DEFAULT

The entire unpaid principal of the Note, and the interest then accrued thereon, shall become and be immediately due and payable upon the written demand of the Lender, without any other notice or demand of any kind or any presentment or protest, if any one of the following events (hereafter an "Event of Default") shall occur and be continuing at the time of such demand, whether voluntarily or involuntarily or, without limitation, occurring or brought about by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rules, or regulations of any administrative or governmental body, provided, however, that such sum shall not be then payable if Borrower's payments have been waived, or the time for making the Borrower's payments has been extended by the Lender:

a. NON-PAYMENT OF LOAN: If Borrower shall fail to make payment when due of any installment of principal on the Note, or interest accrued thereon, and if the default shall remain unremedied for fifteen (15) days.

b. **NON-PAYMENT OF OTHER INDEBTEDNESS:** If Borrower shall be in default of payment when due of any installment of principal or of interest on any of the Borrower's other indebtedness, if such default shall remain unremedied for fifteen (15) days.

c. **INCORRECT REPRESENTATION OR WARRANTY:** If any representation or warranty contained in or made in connection with the execution and delivery of this loan agreement, or in any certificate furnished pursuant hereto, shall prove to have been incorrect when made in any material respect.

d. **DEFAULT IN COVENANTS:** If the Borrower shall **materially** default in the performance of any other term, covenant, or agreement contained in this Loan Agreement, and such default shall continue unremedied for thirty (30) days after either: (1) it becomes known to an executive officer of the Borrower; or (2) written notice thereof shall have been given to the Borrower by the Lender.

e. **EMPLOYMENT:** **If the Borrower shall fail to comply with the provisions of the Three-Party Employment Agreement, which results in the requirement by the CDBG program upon the Grantee to repay grant funds expended to assist the Borrower, the Borrower hereby agrees to repay \$35,000 per TIG job which contributes to the failure to meet the CDBG requirements.**

f. **VOLUNTARY INSOLVENCY:** If the Borrower shall become insolvent or shall cease to pay its debts as they mature or shall voluntarily file a petition seeking reorganization of, or the appointment of a receiver, trustee, or liquidation for it or a substantial portion of its assets, or to effect a plan or other arrangement with creditors, or shall be adjudicated bankrupt, or shall make a voluntary assignment for the benefit of creditors.

g. **INVOLUNTARY INSOLVENCY:** If an insolvency petition shall be filed against the Borrower under any bankruptcy, insolvency, or similar law or seeking the reorganization of the Borrower or the appointment of a receiver, trustee, or liquidator for the Borrower, or for a substantial part of the property of the Borrower, or a writ or warrant of attachment or similar process shall be issued against a substantial part of the property of the Borrower, and such petition shall not be dismissed, or such writ or warrant of attachment or similar process shall not be released or bonded, within sixty (60) days after filing of levy.

h. **JUDGEMENTS:** If any final judgment for the payment of money that is not fully covered by liability insurance shall be rendered against the Borrower, and within sixty (60) days shall not be discharged, or an appeal therefrom taken and execution thereon effectively stayed pending such appeal, and if such judgment be affirmed on such appeal, the same shall not be discharged within thirty (30) days.

i. **RIGHT UPON DEFAULT:** Upon default by Borrower, Lender has all remedies available to it under State law in enforcing this Agreement and Lender rights to the collateral mentioned herein including, but not limited to, the following:

- i. Accelerate and declare the full balance immediately due on the Note and commence suite for collection thereof;
 - ii. Take possession of the collateral or render it unusable, without notice, except as required by law, provided that said self-help shall be done without breach of peace;
 - iii. Request and demand that Borrower assemble the collateral at an acceptable location for delivery to Lender;
 - iv. Sell or dispose of collateral by sale and pursuant to the law;
 - v. Specifically enforce the terms of the Note and related agreements;
 - vi. Foreclose on any real property or appropriate personal property by strict foreclosure in equity;
 - vii. Pursue any and all other remedies available under law to enforce the terms of this Agreement and Lender's rights to the real and personal property identified herein, and in collateral security documents of the Lender.
- j. **SALE/REFINANCING/CHANGE OF OWNERSHIP:** The Loan shall be due and payable upon the sale of the business, sale or refinance of any real property financed with this Loan or as part of the project in which funds from this loan were used, sale or refinancing, of any real property used as collateral for this loan, change in ownership of the business involving any guarantees of this loan, or wherein Borrower ceases to be a majority owner of the business.

4. OTHER DOCUMENTS

Lender may require and Borrower agrees to execute such other documents as may be required by the Lender in its sole discretion in order to comply with State and federal regulations governing (a) the loan proceeds and (b) prudent lending practices.

5. COLLECTION AGENT

Borrower hereby appoints the Lender as its agent to appoint a loan collection agent to provide loan servicing in accordance with this agreement and other loan documents. Lender may remove or replace the loan agent in its sole discretion. Lender shall provide or cause to be provided notice to Borrower of change in the loan collection agent.

6. WAIVER

No failure or delay on the part of the Lender in exercising any right, power or remedy hereunder shall operate as a waiver thereof.

7. ATTORNEY FEES

If any of the Parties to this Agreement breaches any provision of this Agreement, or becomes Party to litigation concerning this Loan or the security for this Loan, then the other Party may institute legal action against the defaulting Party for specific performance, injunction, declaratory relief, damages, or any other remedy provided by law. In addition to the recovery of any such sum or sums expended on behalf of the defaulting Party, the prevailing Party shall be entitled to recover from the losing Party such amount as the court may adjudge to be reasonable attorneys' fees for the services rendered to the prevailing Party in such action. The Parties each waive the applicability of Davis-Sterling Common Interest Development Act, Civil Code Section 1350.

8. EXHIBITS INCORPORATED BY REFERENCE

Borrower agrees to each of the covenants and commitments contained in Exhibits A through E are attached hereto and by this reference incorporated herein.

9. NOTICES:

Notices shall be sent to :

Borrower:

Lender:

Name: City of Sample

Address: 1111 Main St.

Room 3

Sample, CA

Phone:

With Copies to:

10 HEIRS, SUCCESSORS AND ASSIGNS

This agreement shall be binding upon and inure to the benefit of the heirs, successors and assigns of the parties to this agreement.

11. AMENDMENTS

Any amendments or modifications to this agreement must be in writing and signed by both parties.

Acceptance

IN WITNESS WHEREOF, the parties hereto have each caused this Loan Agreement to be duly executed as of the date first written above.

BORROWER:

LENDER:

By: _____

Title

Title

Date: _____

By: _____

Date: _____

EXHIBIT A

REPRESENTATIONS AND WARRANTIES

The borrower represents and covenants the following:

- a. **DULY ORGANIZED:** The Borrower is a (corporation, partnership, or sole proprietorship) duly organized, validly existing, and in good standing under the laws of the State of California and has the power to enter into this Agreement and to borrow hereunder.
- b. **DULY AUTHORIZED:** The making and performance by the Borrower of this Agreement, and the execution and delivery of the Note, and any Security Agreements and Instruments have been duly authorized by all necessary corporate actions and will not violate any law, rule, regulation, order, writ, judgment, decree, determination, or award presently in effect or result in a breach of or constitute a default under any bank loan or any other agreement or instrument to which the Borrower is a party or by which is or its property may be bound or affected.
- c. **LEGALLY BINDING INSTRUMENTS:** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors. The parties agree to execute such further documents and instruments as shall be necessary to carry out the terms of this Agreement, and such documents and agreements shall likewise be binding upon the parties and their successors.
- d. **NO LEGAL SUITS:** There are no legal actions, suits, or proceedings pending, or to the knowledge of the Borrower, threatened against the Borrower before any court or administrative agency, which if determined adversely to the Borrower, would have a material adverse affect on the financial condition or business of the Borrower.
- e. **NOT IN DEFAULT:** The Borrower is not in default of any obligation, covenant, or condition contained in any bond, debenture, note, or other evidence of indebtedness or any mortgage or collateral instrument securing the same.
- f. **TAXES ARE PAID:** Borrower has paid in full all taxes and assessments levied by any taxing agency, federal, state, or local against Borrower or its personal or real property.
- g. **NO ADVERSE CHANGE:** The Borrower certifies that there has been no adverse change since the date of loan application in the financial conditions, organization, operation, business prospects, fixed properties, or personnel of the Borrower.

EVIDENCE OF PROJECT FUNDING: The Borrower has submitted to the Lender acceptable evidence (e.g., bank commitment letter) of financing or liquidity for the balance of project cost.

i. HAZARDOUS SUBSTANCES: The Borrower does not know or believe or have reason to know or believe, that hazardous substances are now, or have been, generated, stored, treated, handled, disposed of, released or otherwise located on the property.

BORROWER:

By: _____

Title

Title

Date: _____

EXHIBIT B

AFFIRMATIVE COVENANTS OF THE BORROWER

The Borrower agrees to comply with the following covenants from the date hereof until the Lender has been fully repaid with interest, unless the Lender shall otherwise consent in writing:

- a. **PAYMENT OF THE LOAN:** To pay punctually the principal and interest on the Note according to its terms and conditions and to pay punctually any other amounts that may become due and payable to the Lender pursuant to the terms of this Agreement or Note.
- b. **PAYMENT OF OTHER INDEBTEDNESS:** To pay punctually the principal and interest due on any other indebtedness now or hereafter owing the Borrower to the Lender or any other lender.
- c. **INSURANCE:** To obtain at its sole cost and keep in full force and effect during the term of this agreement broad form property damage, hazard insurance covering fire and extended coverage in amounts at least equal to the unpaid balance of the note naming the CITY as a loss payee, personal injury, employers, and comprehensive form liability insurance in the amount of \$1,000,000 per occurrence providing that the CITY, its officers, agents, and employees shall be named insured under the policy, and that the policy shall stipulate that this insurance will operate as primary insurance, and that no other insurance effected by the CITY or other named insured will be called upon to cover a loss covered thereunder. To obtain evidence of fire and extended coverage insurance in the amount of at least the fair market value of the real property and any and all improvements which are the subject of the security described in Paragraph 1 of the Loan Agreement shall be submitted to the CITY within 15 days of the execution of this Agreement naming the CITY as a loss payee under such policy. Such evidence shall be acceptable to Lender in its sole discretion. A title policy, acceptable to the Lender in its sole discretion, with endorsements required by Lender shall be provided by Borrower.
- d. **CERTIFICATES OF INSURANCE:** To file with CITY within 15 days of the execution of this agreement, a certificate of insurance and an endorsement which shall provide that no cancellation, major change in coverage, or expiration will be made during the term of this agreement, without 30 days written notice to the CITY prior to the effective date of such cancellation, or change in coverage.
- e. **PAY ALL TAXES:** To pay and discharge all personal property taxes, assessments, and governmental charges upon it or against its properties prior to the date on which the penalties attached thereto apply, except that the Borrower shall not be required to pay any such tax, assessment, or governmental charge which is being contested in good faith and by appropriate proceedings. If so requested by Lender, Borrower will provide a bond guaranteeing payment of such taxes or assessments in any case in which Borrower contests any tax and refuses to pay under this section.

f. **PROVIDE ADDITIONAL EQUITY:** To provide additional equity funds to cover additional project costs incurred as a result of overruns or unanticipated expenses or changes in work orders in the project as specified in the Loan Commitment Letter.

g. **MAINTAIN EXISTENCE:** To maintain its existence, rights, privilege, and franchises within the State of California and qualify and remain qualified in each jurisdiction in which its present or future operations or its ownership of property requires such qualifications.

h. **PROVIDE FINANCIAL AND JOB INFORMATION:** To maintain adequate records and books of account, in which all of its business and financial transactions will be entered in accordance with generally accepted accounting principles.

In addition, the Borrower agrees to deliver to the Lender financial statements certified by an authorized officer of the Borrower to be true and accurate copies within sixty (60) days of the close of the period and annual financial statements, prepared by an independent accountant and certified by an authorized officer of the Borrower to be true and accurate copies within ninety (90) days of the close of the period. The Lender retains the right to request audited statements from the Borrower, to be obtained at the Borrower's expense.

The Borrower's Agent, the Job Training Agency, has agreed by separate Agreement to provide job hiring or saving data to the Lender every (3) months for the period of the Loan or five (5) years, whichever is less. This job data will include but not be limited to the number of new hires, wages, title, starting date or jobs retained that directly relate to this loan.

The Borrower will comply with record keeping requirements. All records concerning the construction, including invoices, receipts and contracts will be kept for a period of not less than three years from the closing of the loan or completion of construction, whichever is later. All relevant records pertaining to the project shall be accessible and available for inspection or audit by Lender for the same time period. If directed so by the Lender, Borrower shall deliver to the Lender all records, accounts, documentation and other relevant materials relating to the receipt and disbursement of loan funds.

The Borrower further agrees to provide written notice to the Lender of any public hearing or meeting before any administrative or other public agency which may in any manner affect the chattel, personal property, or real estate securing the Loan.

i. **RIGHT TO INSPECTION:** To grant the Lender, until the Note has been fully repaid with interest, the right at all reasonable hours to inspect the chattel, personal property, and real estate used to secure the Loan, and to provide the Lender free access to the Borrower's premises for the purpose of such inspection.

j. **NOTICE OF DEFAULT:** To give written notice to the Lender of any event within 15 days of the event that constitutes an Event of Default under this Loan Agreement as described in Article VI herein or that would, with notice or lapse of time or both, constitute an Event of

Default under this Loan.

k. **INDEMNIFY AND HOLD HARMLESS:** Borrower shall indemnify and hold harmless the City, its officers, agents and employees from all claims, suits, or actions of every name, kind and description, brought forth on account of injuries to or death of any person or damage to property arising from or connected with the willful misconduct, negligent acts, errors or omissions, activities giving rise to strict liability, or defects in design by the Borrower or any person directly or indirectly employed by or acting as agent for Borrower in the performance of this Agreement, including the concurrent or successive passive negligence of the City, its officers, agents or employees.

It is understood that the duty of Borrower to indemnify and hold harmless includes the duty to defend as set forth in Section 2778 of the California Civil Code.

Acceptance of insurance certificates and endorsements required under this Agreement does not relieve Borrower from liability under this indemnification and hold harmless clause. This indemnification and hold harmless clause shall apply whether or not such insurance policies shall have been determined to be applicable to any of such damages or claims for damages.

l. **EXPENSES OF COLLECTION OR ENFORCEMENT:** To pay the Lender, if the Borrower defaults on any provision of this Agreement, in addition to any other amounts that may be due, an amount equal to the costs and expenses of collection, enforcement, or correction or waiver of the default incurred by the Lender's rights under the Note and this Agreement; the prevailing party shall be entitled to its reasonable attorney's fees.

m. **OTHER INSURANCE:** To maintain life insurance on _____ in the amount of \$ _____. The life insurance policy will be a term policy. The Borrower will assign the amount of insurance to the Lender and submit an acknowledged copy from the insurance company of the assignment.

n. **NULL AND VOID COVENANTS:** In the event that any provision of this Loan Agreement or any other instrument executed at closing or the application thereof to any person or circumstances shall be declared null and void, invalid, or held for any reason to be unenforceable by a Court of competent jurisdiction, the remainder of such agreement shall nevertheless remain in full force and effect, and to this end, all covenants, conditions, and agreements described herein are deemed separate.

o. **JOBS:** To create or maintain the number of jobs described in and comply with the conditions of the Non-Financial Employment Plan Agreement (Exhibit F).

p. **COLLATERAL:** To provide and maintain all collateral property or equipment in good condition and at the original site identified in the loan application.

q. **HAZARDOUS SUBSTANCES:** Neither Borrower nor any tenant of space in the real

property shall generate, sell, treat, store, handle, dispose of or otherwise deal with hazardous material on the property. The Borrower shall comply with all applicable laws, regulations, ordinances, licenses, permits, rules and other codes pertaining to hazardous materials. The Borrower shall indemnify and hold harmless from all liability, claims, penalties, fines, losses damages and expenses of any kind, including, without limitation, clean-up costs and reasonable attorney fees, incurred by Lender as a result of Borrowers breach of the provisions of the Deed of Trust, as a result of Borrower's breach of warranty regarding hazardous substances, or as a result of the presence of hazardous substances on the property.

BORROWER:

By: _____

Title

Title

Date: _____

EXHIBIT C

NEGATIVE COVENANTS OF THE BORROWER

The Borrower covenants and agrees that, from the date hereof until payment in full of the Note, unless the Lender shall otherwise consent in writing, the Borrower will not enter into any agreement or other commitment the performance of which would constitute a breach of any of the covenants contained in this Loan Agreement including, but not limited to, the following covenants. Any breach of these covenants would constitute an Event of Default, and the rights of default by the Lender may be executed.

- a. **ENCUMBER THE BORROWER'S ASSETS:** The Borrower will not further encumber its assets or incur indebtedness in addition to that now existing and that provided for in this Loan Agreement, except indebtedness incurred in the ordinary course of business and payable within one year.
- b. **SELL THE BORROWER'S ASSETS:** The Borrower will not sell or transfer all or a substantial part of its assets except those usually sold in the ordinary course of the business. The following items will not be sold, transferred, or removed from the site during the life of this loan.
- c. **LEASE OR SUBLEASE PROPERTY:** The Borrower will not lease or sublease all or any portion of the property to be acquired, constructed, or rehabilitated as described in Section 1.03, with the proceeds of this Loan.
- d. **CHANGE OWNERSHIPS:** The principles of the Borrower will not permit, without the written permission of the Lender, any material change in the ownership structure, control, or operation of the Borrower including, but not limited to: (1) merger into or consolidation with any other person, firm, or corporation; (2) changing the nature of its business as carried on at the date hereof; (3) substantial distribution, liquidation, or other disposal of the Borrower's assets to the stockholders or any other party.
- e. **CHANGE THE PROJECT:** The Borrower will neither permit nor suffer to exist, without prior written Lender consent, any material change in the project's plans and/or specifications submitted to the Lender as per the Preliminary Loan Application. Material change will include any significant variance in the accepted plans and specifications, increases in contract prices, and/or additional financial obligations with respect to the construction and acquisition of assets.

BORROWER:

By: _____

Title

Title

Date: _____

Date: _____

EXHIBIT D

MISCELLANEOUS

- a. **WAIVER OF NOTICE:** No failure or delay on the part of the Lender in exercising any right, power, or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power, or remedy preclude any other or further exercise thereof or the exercise of any other right, power, or remedy hereunder. No modification or waiver or any provision of this Loan Agreement or of the Note, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.
- b. **AMENDMENTS - WRITING REQUIRED:** The Lender hereby expressly reserves all rights to amend any provisions of this Agreement, to consent to or waive any departure from the provisions of this Loan Agreement, to amend or consent to, or waive departure from the provisions of the note, and to release or otherwise deal with any collateral security for payment of the Note provided, however, that all such amendments be in writing and executed by the Lender and the Borrower.
- c. **NOTICES:** All notices, consents, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given to a party hereto if mailed by certified mail, prepaid, to the Lender at its address set forth at the beginning of this Loan Agreement, and to the Borrower at the address set forth at the end of this Loan Agreement or at such other addresses as any party may have designated in writing to any other party hereto. This section does not limit other means of delivering written notice if said notices are actually received.
- d. **PAYMENTS:** The Borrower will make payments to the Lender in accordance with the terms and conditions and instructions contained in this Loan Agreement and the Promissory Note.
- e. **SURVIVAL OF REPRESENTATIONS AND WARRANTIES:** All agreements, representations, and warranties made by the Borrowers herein or any other document or certificate delivered to the Lender in this transaction survive the delivery of this Agreement, the Note and the Security Agreements hereunder, and shall continue in full force and effect so long as the Note is outstanding.
- f. **SUCCESSORS AND ASSIGNS:** This Loan Agreement shall be binding upon the Borrower, its successors, and assigns, except that the Borrower may not assign or transfer its rights without prior written consent of the Lender. This Agreement shall inure to the benefit of the Lender and, except as otherwise expressly provided in particular provisions hereof, all subsequent holders of the Note. Borrower acknowledges that Lender contemplates and may assign the Note and this Agreement and consents to such assignments.
- g. **COUNTERPARTS:** This Loan Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute

one and the same instrument.

h. GOVERNING LAW: This Loan Agreement and the Note and Security Agreements, Financing Statements, and Deed of Trust shall be deemed contracts made under the laws of the State of California and for all purposes shall be construed in accordance with the laws of said State.

i. WAIVER: Failure by Lender at any time to require performance by Borrower of any of the provisions of this Agreement shall in no way affect Lender's rights hereunder to enforce the same, nor shall any waiver by Lender of any breach hereof be held to be a waiver of any succeeding breaches or a waiver of this non-waiver clause.

BORROWER:

By: _____

Title

Title

Date: _____

EXHIBIT E

PROJECT ASSURANCE

The Borrower hereby assures and certifies that he/she will comply with all regulations, policies, guidelines, and requirements as they relate to the Sample Revolving Loan Fund (RLF). Also, the Borrower assures and certifies to the Sample Revolving Loan Fund that the project:

- a. Will comply with Title VI of the Civil Rights Act of 1964 (P.L. 88-352) whereby no person in the United States shall on the grounds of race, color, or national origin be excluded from participation in, be denied the benefits of, or otherwise be subjected to discrimination under the Sample RLF by which the Borrower receives Federal financial assistance and will immediately take any measures necessary to effectuate this agreement.
- b. Will comply with Title VI of the Civil Rights Act of 1964 (42-USE 2000d) prohibiting employment discrimination where: 1) the primary purpose of the financial assistance is to provide employment, or 2) discriminatory employment practices will result in unequal treatment of persons who are or should be benefiting from the loan-aided activities.
- c. Will comply with Section 112 of the Public Law 92-65 and Title III of Public Law 94-135 whereby the borrower assures that no person in the United States shall on the grounds of sex or of age be excluded from participating in, be denied the benefits of, or otherwise be subject to discrimination in connection with loan-aided activities.
- d. Will comply with the flood insurance purchase requirements of Section 102(a) of the Flood Disaster Protection Act of 1973, Public Law 93-234, 87 Stat. 975, approved December 31, 1976. Section 102 (a) requires, on and after March 2, 1975, the purchase of flood insurance in communities where such insurance is available on a condition for the receipt of any purposes for use in any area that has been identified by the Secretary of the Department of Housing and Urban Development as an area having special flood hazards. The phrase "Federal financial assistance" includes any form of loan, grant, or any other form of direct or indirect federal assistance.
- e. Will comply with Section 106 of the National Historic Preservation Act of 1966 as amended (16 USC 470), Executive Order 11593, and the Archeological and Historic Preservation Act of 1966 (16 USC 469a-1 et seq.) by: a) consulting with the State's Historic Preservation Officer on the conduct of investigation, as necessary to identify properties listed in or eligible for inclusion in the National Register (see 36 CFR Part 880.8) by the activity, and notifying of existence of any such properties; and b) complying with all requirements established by the State to avoid or mitigate adverse missing effects.

- f. Will give the City of Sample through any authorized representative the access to the right to examine all records, books, papers, or documents related to the loan.
- g. Will comply with Section 2, of the Public Works and Economic Development Act which state that under the provisions of this Act new employment opportunities should be created by developing and expanding new and existing facilities and resources rather than by merely transferring jobs from one labor area to another.
- h. Will assure that any building or facility financed in whole or in part by any funds provided under the Sample RLF will be designed, construed or altered so as to assure ready access to and use of such building or facility by the physically handicapped. This provision applies only to firms which deal directly with the general public in the normal and usual course of their business, and to facilities in which business is customarily transacted by and with members of the general public.
- i. Will insure that the facilities under its ownership, lease or supervision which shall be utilized in the accomplishment of the project are not listed on the Environmental Protection Agency's (EPA) list of Violating Facilities and that it will notify the City of Sample Department of Community Development of the receipt of any communication from the Director of the EPA Office of Federal Activities indicating that a facility to be used in the project is under consideration for listing by the EPA.
- j. Will comply with all requirements imposed by the Federal sponsoring agency concerning special requirements of law, program, and other administrative requirements.
- k. Will comply with the Davis Bacon Act, as amended (40 U.S.C.276a--5).

BORROWER:

By: _____

Title

Title

Date: _____

EXHIBIT III

CITY OF SAMPLE
LOAN ADVISORY BOARD

Project Evaluation Form
RLF General Guidelines and Criteria

Company Name: _____

Address: _____

Telephone: () _____ Applicant Loan # _____

1. Recommendation:

2. a) Description of Business/Project:

b) Resume:

c) Comment:

3. RLF CRITERIA

- a) Creation of at least one job per every \$35,000 loaned.
 - b) Leveraging ratio of at least _____ private to every one RLF dollar.
 - c) Availability of 51% jobs created to low/moderate income persons.
 - d) Confirmation of existence of financing gap.
 - e) Business/Project located at or relocating to.
 - f) Environmental Assessment completed or scheduled to be completed.
4. Does the project result in an expansion?
- of space?
of sales?
5. Does the cash flow projection account for the new jobs?
6. What is the time frame for new jobs to start in relation to disbursement of loan proceeds and is it appropriate?
7. Does the project demonstrate a financial gap?
8. Can this gap be met with equity?
9. What are the uses and sources of fund?
10. Program Status
- a) Total Funds Available for Lending \$
 - b) Total Funds Loaned \$
 - Current RLF Balance \$
11. Financing Policy
- a) Applicant Request \$ _____
 - b) Applicant number of years requested _____
Type of Loan _____

Comment:

c) Interest rate for loans will be _____

d) Security required to adequately collateralize loan.

Value of Collateral Available: \$ _____

Project Cost: \$ _____

Prior Liens: \$ _____

Collateral Surplus \$ _____

Additional Collateral: \$ _____

TOTAL ADDITIONAL COLLATERAL \$ _____

RLF Loan: \$ _____

Collateral Coverage: \$ _____

EXHIBIT IV

CITY OF SAMPLE
REVOLVING LOAN PROGRAM

(PRELIMINARY) LOAN APPLICATION

I. COMPANY INFORMATION

NAME: _____

ADDRESS: _____

TELEPHONE NO.: _____

CONTACT PERSON: _____

PROJECT ADDRESS: _____

PROJECT ASSESSOR PARCEL NUMBER(S): _____

CURRENT NUMBER OF EMPLOYEES: _____

PROJECTED NUMBER OF EMPLOYEES AFTER COMPLETION OF
PROJECT: _____

NUMBER OF EMPLOYEES TO BE HIRED DURING YEAR ONE: _____
(Also indicate which month(s) jobs begin)

NUMBER OF EMPLOYEES TO BE HIRED DURING YEAR TWO: _____
(Also indicate which month(s) jobs begin)

TOTAL NUMBER OF NEW EMPLOYEES: _____

TOTAL NUMBER OF EMPLOYEES TWO YEARS FROM COMPLETION OF
PROJECT (or 24th month of State grant term): _____

II. PRINCIPAL(S) INFORMATION

NAME: _____

POSITION: _____

% OF
OWNERSHIP: _____

YEARS OF
EXPERIENCE: _____

III. EXISTING FACILITY

SIZE: _____ SQ.FT.

OWNED OR LEASED? _____

IF OWNED:

PURCHASE PRICE \$ _____

EXISTING MORTGAGE \$ _____

RECENT APPRAISED VALUE \$ _____

ANNUAL MORTGAGE PAYMENTS \$ _____

IF LEASED:

MONTHLY RENT \$ _____

ANNUAL RENT \$ _____

EXPIRATION DATE OF LEASE _____

IV. NEW/EXPANDED INFORMATION (IF APPLICABLE)

SIZE _____ SQ.FT.

WILL NEW FACILITY REPLACE EXISTING FACILITY? _____
IF REPLACED, WILL RENT BE SAVED OR WILL EXISTING FACILITY BE
SOLD? _____

CURRENT MARKET VALUE OF EXISTING FACILITY? \$ _____

PURCHASE PRICE OF NEW FACILITY \$ _____

APPRAISED VALUE \$ _____

WILL PURCHASER OCCUPY ENTIRE SPACE? _____

IF NO:

EXPLAIN OTHER USES: _____

% TO BE OCCUPIED BY PURCHASER: _____

RENTAL INCOME GENERATED: \$ _____

V. PRINCIPAL BANK INFORMATION

NAME OF BANK: _____

CONTACT PERSON: _____

TELEPHONE NUMBER: _____

AVAILABLE LINE OF CREDIT: _____

VI. PROJECT COSTS

NEW CONSTRUCTION \$ _____

REHABILITATION \$ _____

OFF-SITE IMPROVEMENTS \$ _____

ACQUISITION \$ _____

OTHER: \$ _____

TOTAL: \$ _____

VII. PROJECT FUNDING

RLF \$ _____

BANK \$ _____

COMPANY \$ _____

OTHER \$ _____

TOTAL \$ _____

VIII PROJECT DESCRIPTION

IX. ADDITIONAL INFORMATION

X. INFORMATION REQUESTED BY LAB

_____ BUSINESS INCOME STATEMENTS
(CURRENT & LAST THREE (3) YEARS)

_____ BUSINESS BALANCE SHEETS
(CURRENT & LAST THREE (3) YEARS)

_____ PERSONAL FINANCIAL STATEMENTS

_____ INCOME TAX RETURNS
(LAST THREE YEARS)

_____ DEBT SCHEDULE

_____ RESUME(S) OF OWNER(S) AND BUSINESS HISTORY

_____ ITEMIZED THIRD PARTY COST ESTIMATE

_____ PRELIMINARY PLANS INCLUDING FACADE RENDERING

_____ SIGNED ASSISTANCE AGREEMENT

I/WE HEREBY ACKNOWLEDGE THAT LAB DOES NOT AND CANNOT
GUARANTEE THAT I/WE WILL RECEIVE FINANCING FROM THE RLF, OR
PUBLIC OR PRIVATE LENDERS. IN ADDITION, RLF FINANCING WILL NOT
BE PROVIDED WITHOUT ADEQUATE DOCUMENTATION REGARDING
FUNDING OF THE BALANCE OF PROJECT COSTS.

APPLICANT SIGNATURE: _____

DATE: _____

APPLICANT SIGNATURE: _____

DATE: _____

EXHIBIT V
REVOLVING LOAN FUND

PROJECT CHECKLIST

1. Business Information:

- _____ Business Plan
- _____ Resume(s) of Principal(s)(normally those with 20% ownership or more)
- _____ Articles of Incorporation/By-Laws
- _____ Certificate of Good Standing (obtained for Corporations from Secretary of State)
- _____ Partnership Agreement
- _____ Franchise Agreement
- _____ Fictitious Name Statement

2. Project Information:

- _____ Purchase Agreement (Deposit Receipt)
- _____ Preliminary Title Report on Property to be Acquired
- _____ Preliminary Plans and Specifications
- _____ Cost Estimates (Construction, Machinery & Equipment)
- _____ Lease Agreement, Existing or Future
- _____ Project Appraisal
- _____ Applicable Permits and Licenses
- _____ Copy of Equity Capital/Buy-Out Agreement
- _____ Summary of Collateral

3. Financial Information:

a. Business

- _____ Income Statement - past three years plus current (within 60 days)
- _____ Balance Sheet - past three years plus current (within 60 days)
- _____ Aging Schedules of Accounts Receivable/Payable (same date as current Balance Sheet)
- _____ Schedule of Existing Debt (same date as current Balance Sheet)
- _____ Business Federal Tax Returns (past three (3) years) (Used to verify/supplement Financial Statements)
- _____ Income and Cash Flow Projections (next two (2) years)
- _____ Pro Forma Balance Sheet

b. Personal:

- _____ Personal Financial Statements of Principal Owner(s) (normally those with 20% Ownership or more)
- _____ Individual Federal Tax Returns of Principal(s)

4. Other Information:

- _____ Corporate Resolution to Borrow
- _____ Letter of Assurance from Business as to Hiring Policy, Training Agreements, Location, Use of Proceeds, etc.
- _____ Three-Party Employment Agreement
- _____ Other

EXHIBIT VI

REVOLVING LOAN PROGRAM

PRE-CLOSING CHECKLIST

- _____ A copy of the construction contract between the business and the general contractor.
- _____ A copy of final construction/rehabilitation plans stamped by the appropriate local agency - city building permit department.
- _____ A copy of the Construction Contractors Performance Bond (100% Performance, Labor and Material Bond - owner as obligee).
- _____ A copy of the building permit.
- _____ A letter from an insurance agent, stating that hazard insurance will be in effect upon closing of the loan, naming the Lender as mortgagee. Insurance should be for the total amount of the project.
- _____ A copy of the contractor's workers' compensation and Builders Risk Policy.
- _____ A lien form (UCC-1) on all machinery and equipment to be held as collateral.
- _____ Copy of the purchase agreement between buyer and seller.

EXHIBIT VII

REVOLVING LOAN PROGRAM

SAMPLE ESCROW INSTRUCTIONS

Send to Title Company or Bank Escrow Officer. Reference the Escrow number obtained from Preliminary Title Report. Put in letter format.

OUTLINE

1. Identify parties of the transaction. Give Escrow Number if you have had one assigned in Preliminary Title Report.
 - Names
 - Legal Structure (if business)
 - Address
2. Recite intentions of above parties.
 - Identify Buyers and Sellers
 - Identify Sources and Amounts of Financing
 - Identify Role and Duties of all Parties
 - Identify Order of Priority of Parties to security or collateral
3. Identify all Documents submitted.
 - Loan Agreement(s)
 - Promissory Note(s)
 - Deed(s) of Trust (Identify position for filing)
 - Assignment(s) of Deed(s) of Trust
 - Notice(s) of Default
 - Personal and Corporate Guarantee(s)
 - Checks - including maker, amount, and payee
 - Any other appropriate documents
4. Instructions and Authorizations to Escrow Officer.
 - Delivery of Checks and/or documents
 - Insertion of dates and conforming of documents - all dates same
 - Recordation of Documents after signatures obtained
 - Disbursement of Checks and/or funds
 - Insurance and delivery of policies of Title Insurance
 - Delivery of other documents
 - Return of original documents

- Bill the borrower for any charges incurred for your services

5. Conditions to be met prior to Recordation

- Sample language:

"You are authorized to record the appropriate documents and disburse our deposited check when the following conditions have been met:"

- Hazard Insurance on Fixed Assets, Specify amount and assignees
- Signing of the construction contract
- Project surety bonding, specify type and terms
- Other policies of Insurance (eg. Life and Liability), specify amounts and assignees
- Evidence of appropriate licenses and permits
- Endorsements of Title Insurance
- Evidence of execution of other loan agreements
- Evidence of deposit of cash equity by borrower and/or investors
- etc.

NOTE: It is essential that project escrow instructions be reviewed by an attorney prior to submittal to the Title/Escrow Company.

Date

Agent

Title Company

Address

City and State

Dear:

Your are in the process of closing an escrow for the purchase of _____.
The purchasers are _____.

The City of Sample will be making a loan from the Sample Revolving Loan Fund in the amount of \$_____. The term of the loan will be _____ years at _____ percent interest. The loan would be fully amortized over a _____ year period.

Prior to disbursing the funds from escrow you should complete the following list of items:

1. Have four (4) originals of the loan agreement signed and return them to me for City signature.
2. Prepare note and second Deed of Trust _____, California. This should also include assignment of rents. The City of Sample will subordinate to a \$_____ loan from the _____ Bank of _____.
3. Place a second Deed of Trust in the amount of \$ _____ on _____.
4. Have _____ sign both originals of the Guarantee Agreement provided and return them to me.
5. Obtain evidence of Life Insurance on _____ in the amount of \$_____, assigned to the City of Sample.
6. Obtain evidence of Fire and Liability insurance on both properties being used as collateral. A minimum of \$_____ on the _____ property. The City of Sample is to be added as loss payee on all such properties.
7. Collect \$_____ as a Loan Origination fee for the City of Sample.

8. All fees to be paid by the Borrowers.

After the above activities have been completed, and prior to the disbursement of the Funds, we would like to review the documentation for completeness.

Please let me know if you have any questions.

Sincerely,

EXHIBIT VIII

REVOLVING LOAN FUND CHECKLIST

1. Discuss RLF program with potential clients and make a preliminary determination on eligibility . If they are expanding or locating their business in Sample, and can create one new full time job per \$35,000 loaned, and can demonstrate a need for RLF financing ("gap"), they may be eligible (BDC).
2. Review financial statements and project information. See attached checklist for items required for a complete review (BDC).
3. Discuss project with City of Sample staff and City CDBG coordinator to determine eligibility.
4. If the project appears appropriate and necessary, prepare a preliminary application and a project evaluation. See attached sample for guidelines. (BDC).
5. Review preliminary application and project evaluation form (City).
6. If the project appears reasonable:
 - a. return application with comments to BDC.
 - b. prepare the environmental review
 - c. schedule Loan Advisory Board (LAB) meeting (City).
7. Finalize application - 2 originals, 1 to City, 1 to Client, copy to BDC. (BDC)
8. Submit application to City (BDC). Distribute copies to LAB members in advance of meeting (City).
9. Present proposal to LAB (City).
10. Post public notice for environmental review and hold public comment period. Allow up to ____ days for comments. If environmental review is negative, terminate application and review process (City).
11. Record and transcribe minutes of meeting (City). Prepare a brief summary of the meeting (BDC).
12. LAB reviews project and makes recommendation (City).
13. City Manager approves/conditionally approves/denies application.

14. Obtain approval from City Manager, the authorized approver (City).
15. Send letter to client outlining conditions, LAB recommendation and Draft Loan Agreement (City/BDC).
16. Client accepts terms and conditions.
17. Confirm that conditions (obtaining insurance, bank loan, etc.) have been met or are likely to be met (City/BDC).
18. Prepare escrow closing instructions for Title Company (City).
19. Prepare loan agreement including employment agreement, guarantee agreement, security agreement and promissory note, if applicable. Have client sign 4 originals (3 to City, 1 to client) and give 1 copy to EDD for monitoring (City/BDC).
20. Meet with client to re-emphasize the employment agreement after loan agreement is signed. The client will be monitored for compliance on a quarterly basis for five years after loan closing or until the loan is repaid, whichever is less (BDC). The BDC shall submit reports to the City. Reports shall be in a mutually agreeable format.
21. Review closing documents (City).
22. Request funds disbursement. Funds will be released the Friday following the Friday of the week during which the request was submitted (City). Check should be made out to title company, with the escrow number on the check.

EXHIBIT IX

FORECLOSURE GUIDELINES

The collection function of servicing a loan is typically organized into several areas. This includes collection of past due payments, counseling of borrowers with financial difficulties and institute foreclosure actions when necessary. The collection effort is vital to the viability of the RLF Program, without collection of payments when due, the efforts of sound underwriting and originating the loan are fruitless.

Beyond solid underwriting and loan origination procedures, loan monitoring is critical. The Business Development Corporation (BDC) shall review the on-going financial statements submitted to early on detect problems. When problems or negative trends are noted, the business shall be referred to the College Small Business Development Center for business counseling. In addition, when the loan servicing agent notifies BDC of a late payment, business counseling will also be undertaken.

Dealing with loan collection and perhaps foreclosure is complicated and requires compliance with strict legal standards. Foreclosure must be invoked as a last result. Under the RLF Program, the loan collection agent (Bank) will provide loan collection, servicing and asset liquidation. Asset liquidation will only be undertaken with concurrence with the City's legal counseling.

The collection process will usually begin when a Borrower fails to remit payment. The first step is that the Bank will send a reminder notice. The notice will ask the Borrower to check their records and to disregard the notice if payment has been sent. If payment is still not received by the specified date, the Bank will inform BDC. The Bank will also send out notice that the payment is delinquent and due immediately. The Bank and/or SBDC will contact the business personally to determine the reason for the late payment. Business counseling will be set-up. If the business is experiencing financial difficulties and unable to meet their obligations, a meeting between the business, Bank, BDC and City staff will be set up.

Communication between the business and the Bank/BDC is critical and a required part of the loan collection process. Judicious personal contact at this stage can prevent future problems, including legal actions. Based upon the personal contact, review of the financial statements and business counseling a decision will be reached by the City, based upon Bank and SBDC advice. The decision is whether additional counseling will improve the problem. If not, then there are essentially two options. The first is debt restructuring. This arrangement may call for call for reduced payments for a period of time. These discussions shall involve other lenders in the project. Such arrangements require careful analysis of the Borrowers situation and cooperation. Any arrangement constitutes a legal modification to the loan and must therefore be reduced to a written agreement. If the new agreement is breached, the City has preserved its legal right to foreclose. There may be other options, such as recasting of the loan. However, any restructuring shall be made after consultation between the BDC, Bank and City, including legal counsel. The State of California Department of Housing and Community Development staff shall also be advised.

If nothing can be resolved with the above steps, the Bank will send a demand letter to the Borrower. This letter will give the Borrower a short time period upon which to respond. If no response is received or the response is not satisfactory, then foreclosure procedures shall be undertaken by the Bank (with City's legal advisor providing concurrence). Foreclosure is the last step due to legal and other costs. The Bank shall undertake their normal foreclosure procedures and liquidate the assets to recover all or a portion of the RLF funds.

APPENDIX C: INFRASTRUCTURE PROGRAM GUIDELINES

INFRASTRUCTURE PROGRAM GUIDELINES

In addition to the Guidelines and Objectives for Evaluating a CDBG Economic Development Project described in **Appendix A** of this Training Manual, infrastructure projects entail additional requirements which include "Determining the Assessment Area" a "Fair Share Allocation Plan, and an Employment Plan Agreement (**Appendix E**) and Three-Way Employment Agreement (**Appendix G**)."

CDBG funds cannot be used for infrastructure improvements in support of speculative developments. A developer or business must be committed to the project and fulfilling the public benefit requirement. The financial documentation required of a business or developer is the same as required for a CDBG funded business loan, and similarly documents the ability of the enterprise to create or retain jobs. Depending on the needs of the business or developer, infrastructure assistance can be in the form of a loan or a grant.

Please Note: – An Infrastructure grant request of \$250,000 or more will require a separate review by the Department’s Economic Development Advisory Committee which convenes monthly upon request.

Determining the Assessment Area

The assessment area for an infrastructure project is generally the area served by the improvements. The assessment area contains the businesses from which data is to be collected to determine if the project has met a national objective. However, infrastructure projects are often sized to meet more than the infrastructure needs of the initial benefiting business or businesses. In such instances, the parameter of the assessment area is based upon the level of projected public benefit to be realized from the project.

If the *projected* cost per job from the initial benefiting business(es) is less than \$10,000, the assessment area includes only the initially benefiting business(es). Data needs to be collected only from the initial business(es) for the purpose of confirming that the national objective of benefit to the targeted income group through job creation or retention has been achieved. This data includes the number of jobs created or retained, the number of jobs held by the targeted income group, and is to be collected until the end of the State grant term.

If the *projected* cost per job is \$10,000 or more, the assessment area is defined as the area served by the infrastructure improvements, and includes all businesses in the service area of the improvements that create or retain jobs as a result of the infrastructure improvements, and any other businesses which locate or expand in the service area of the infrastructure improvements during the time period of the commitment of CDBG funds to the project until one year after the completion of the infrastructure improvements. Data needs to be collected from the identified businesses for purposes of confirming that the national objective of benefit to the targeted income group through job creation or retention has been achieved. This data includes the number of jobs

created or retained, the number of jobs held by the targeted income group, and is to be collected until the end of the State grant term.

Note that these projects are subject to the individual and aggregate public benefit standards. For example, a CDBG-assisted infrastructure project that exceeds \$50,000 of CDBG funds per job created or retained would be deemed to have received an excessive CDBG subsidy for the project. And, if the aggregate cost of CDBG funds per job created or retained for the grantee's overall program (all projects combined) exceeds \$35,000, the CDBG subsidy would be deemed to be excessive.

Grantees need to establish reporting mechanisms to compile the benefit data, track the jobs created or retained, and assess the level of benefit to the targeted income group within the assessment area. Grantees also need to be aware that if the actual cost per job is significantly higher than the projected cost per job realized from an infrastructure project, the grantee will be required to develop more accurate job creation/retention projection techniques for future CDBG Economic Development applications.

Fair Share Allocation Plan

A Fair Share Allocation Plan is a plan to levy the cost of the infrastructure improvements on the current and future beneficiaries of the infrastructure improvements. The plan ensures that other available sources of funds are maximized as required under CDBG underwriting guidelines, see Appendix A. When the project is in the design phase, the grantee must:

- Identify all of the current beneficiaries of the infrastructure improvements;
- Determine the fair share payment assigned to each beneficiary for the infrastructure costs based upon a pro-rata portion of the project costs; and,
- Conduct a good faith negotiation with each beneficiary to collect the fair share payment.

As noted above, the fair share process is required under the practice of meeting the underwriting guideline of avoiding the substitution of CDBG funds for other non-federal financial support (i.e. maximizing all available resources). In some instances, the benefiting business or land owner will pay the full amount of the fair share payment. In other instances, the beneficiary will refuse to pay, be unable to pay, or be willing and able to pay a partial amount of the fair share payment. A grantee may be able to secure the full amount of a fair share payment through a deferred or interest free loan, or may choose to forgive all, or a portion of, a loan if the business exceeds stated job creation goals. **All negotiation efforts and results must be in writing and fully documented in the infrastructure project file.**

The grantee must also document how fair share payments will be obtained from future beneficiaries (users) of the infrastructure project. Fair share payments and hook-up fees are distinct from ongoing operating fees; they are intended to capitalize a fund for CDBG eligible

activities in the same manner as the reuse of loan repayments. **A fair share plan for future users should be included in every infrastructure project file.**

Fair share payments collected up front are to be applied to total project costs and should be disbursed into the project prior to the drawdown and full disbursement of any CDBG funds. Fair share payments collected after the CDBG funds are disbursed are considered program income.

Employment Plan Agreement and Three-Party Employment Agreement

The Employment Plan Agreement and Three-Party Employment Agreement are required where jobs will be created. The Employment Plan Agreement is struck between the jurisdiction and the screening and referral agency and outlines the role of each party in insuring that the 51% benefit to the TIG is met. The Three-Party Employment Agreement is struck between the jurisdiction, the agency and the developer or each business that will be creating jobs, and is a condition of location in the development or hookup along the improvement being financed. The jurisdiction will use its own best judgment in determining who is ultimately responsible for the job creation, the developer or each individual business, but this relationship should be addressed in the Three-Party Agreement as an addendum the loan agreement.

The grantee should include a non-monetary default provision in the loan agreement with the business or developer that specifies income screening on all applicants for hire according to CDBG requirements, and that requires the business to provide regular reports to the Grantee on the number of hires and number of TIG hires.

APPENDIX D MICROENTERPRISE ACTIVITY PROGRAM GUIDELINES

MICROENTERPRISE

A "microenterprise" is a business that has five or fewer employees, one or more of whom owns the enterprise. The size limitation applies only at the time the assistance is provided, although assistance can be terminated when the business grows beyond five. A person "developing a microenterprise" is a person who has expressed interest and who is, or after an initial screening process is expected to be, actively working toward developing a microenterprise. Not all participants in a CDBG-funded microenterprise program will actually start a business. However, if there is excessive fallout from the program, future CDBG applications for microenterprise assistance funding will be closely scrutinized.

Microenterprise assistance activities include:

1. Loan funds to provide for the establishment, stabilization and expansion of a microenterprise.
2. Technical assistance, advice and business support services to owners of microenterprises and persons developing microenterprises.
3. General support to owners of microenterprises and persons developing microenterprises. Support services include, but are not limited to, peer support programs, counseling, child care, transportation and other similar services.

A microenterprise activity must meet a national objective. Most likely, this national objective will be benefit to the targeted income group. If the program is designed to serve only individuals who are presumed to be in the targeted income group, the national objective is met through the "limited clientele" provision. Under this provision, persons are presumed to be in the targeted income group for up to a three year period. However, microentrepreneurs and potential microentrepreneurs who apply for assistance will be income verified prior to their initial participation in the program.

Or, if the program is available to all residents of an area where at least 51% of the residents are in the targeted income group, the national objective is met through the "area benefit" provision. Lastly, the national objective could be met through job creation or retention, in which case at least 51% of the jobs created or retained, including the owner, must be held by a member of the targeted income group.

Tasks which can be funded under the microenterprise assistance category include:

- Recruit, screen and test program applicants who are promising future business owners;
- Recruit and assist program applicants throughout the entire cycle of business start-up through operation.

- Assist program applicants in conducting market research to determine the types of small business products or services and market areas that would be economically feasible;
- Assist program applicants in product or service design, marketing and financing and development;
- Assist program applicants to secure private sector sources of capital for business start-up and operations;
- Analyze the need for, and secure the supportive services such as daycare and transportation, readers and interpreters, to enable the program applicants to commit fully the time and energy required to start and operate a small business; and
- Coordinate other available Federal, State and local assistance.

The following are Types of Microenterprise Assistance Programs:

Technical Assistance Programs
 Classroom Training Programs
 Loan Assistance/Loan Guarantee Programs
 Peer Lending/Individual Development Accounts

Marketing and Recruitment should target publicity. The following agencies are links for potential candidates and services

State Dept. of Social Welfare
 State Dept. of Employment/Training
 State Vocational Rehabilitation
 State Commission on Women
 State Veteran's Affairs Office
 State Dept. of Economic Development
 Regional Development Corporations
 Small Business Development Centers
 Other Small Business Programs
 Small Business Associations
 Town Clerks
 Town Selectboards
 Town Administrators

Creating and Operating a Training and Technical Assistance Program

Evaluating the Strengths and Weaknesses of an Entrepreneur

- Self-Selection vs. Assessment Tests
- Demonstrated Skill or Expertise

- Determination, Excitement
- Ability to Sell Themselves and the Idea
- Ability to Recognize Weaknesses and Ask for Help
- Family Support
- Completion of “Homework” or Tasks
- Understanding Ramifications of Self-Employment

Barriers to Self-Employment for Low-Income People

Regulatory Barriers

- Federal Asset Limitations
- Public Housing Home Business Exclusions
- Grey Areas in Regulation Due to Uniqueness of Entrepreneurial Programs

Capital Barriers

- Need for Completed, Realistic Business Plans
- Poor or No Credit History
- Poor Money Management Skills

Technical Barriers

- Need for “Appropriate” Training
- Need for Useable Business Plan to Use as a Roadmap
- Inability to Value One’s Time

Personal Barriers

- Need to Resolve Personal Problems to Clear Way for Business
- Distrust/Ignorance of Mainstream Economic Institutions
- Lack of Confidence, Illiteracy
- Fear of Borrowing Money

Administrative Barriers

- Agency’s Leadership Supports Program, but Front Line Staff Not on Board
- Poor Integration of Government Services
- Staff and Partners Underestimate Time to Start Businesses and Reach Self-Sufficiency

The foundation of a CDBG Microenterprise Assistance Activity is the Statement of Purpose and Beneficiary Tracking Plan. The Statement of Purpose outlines the proposed benefits, eligible activities and ongoing evaluation of program services. The Beneficiary Tracking Plan is the roadmap for the activity. It defines the goals, identifies the roles and responsibilities of service providers, identifies the market and focuses the outreach, defines the screening and referral process and tracks the beneficiaries through the programs levels of service. It includes the document tools necessary for defining the roles and responsibilities and meeting the reporting requirements of the State CDBG program. It is included in **Appendix F**.

Loans to microenterprises made with grant funds or program income funds must follow the overlay and underwriting guidelines introduced in **Appendices A and B** for the Enterprise Fund Business Assistance Activity. Microenterprises creating jobs will be tracked for job creation if the microentrepreneur is not income eligible and must meet the national objective for low and moderate-income benefit (51% TIG of all jobs created including that of the owner) and public benefit (\$35,000/job). Microenterprises creating jobs when the microentrepreneur is income eligible will qualify as beneficiaries for services under the limited clientele national objective but job tracking should still be done to demonstrate the effectiveness of the Microenterprise Program. **Where jobs are created to meet the 51% TIG national objective by microentrepreneurs that are NOT income eligible, a Microenterprise Assistance Three-Party Employment Agreement will also be required, irregardless of whether CDBG funds are providing a loan to the business.**

APPENDIX E
BENEFICIARY AND EMPLOYMENT PLAN AGREEMENT MODEL S

BENEFICIARY AND EMPLOYMENT PLAN AGREEMENT MODELS

The following Beneficiary and Employment Plan Agreement is only a suggested format for jurisdictions intending to contract for placement and/or training services. However, the requirements contained within the agreement should be included in any contract for these services.

The State CDBG Program requires jurisdictions to use the HUD definition of family income eligibility where there is an executed contract with a Workforce Investment Act funded screening and referral agency. It is important to note that most screening and referral agencies do not require 100 percent verification of the income eligibility of applicants who are placed and it will therefore be necessary to contract for these additional required services prior to implementation of the program.

For Beneficiary Projects The CDBG Program requires **all** beneficiaries of a microenterprise assistance program to be income screened and Targeted Income Group verified.

For Job Retention Projects The CDBG Program requires a self-certification of income of **all** employees prior to the jurisdiction approving the CDBG assistance (loan or grant). Subsequent to the CDBG assistance, the jurisdiction must income screen a representative sample of the retained employees to determine the accuracy of the self-certifications. The number of employees sampled should be in relation to the number of total employees retained. The jurisdiction must also income verify employees hired through expansion or attrition.

For Job Creation Projects The CDBG Program requires **all** targeted income group employees to be income screened to verify family income eligibility.

To ensure adequate income documentation, it is advisable to obtain income documentation for **all** beneficiaries/employees screened by the WIA-funded screening and referral agency. As such, CDBG administrative costs may be budgeted to include funds for income verification services.

The definition of Targeted Income Group eligibility is determined by using Department of Housing and Urban Development Income Eligibility limits per county and family size for the current year and applying them to the self-certifications submitted by the job applicants. Income verification must have been completed before the job applicant is hired for the position if the employee is being hired to meet the TIG national objective requirement under this grant.

The Department defines family income as all sources of income for one or more persons living in a single residence who are related by blood or marriage. (See Appendix K for guidelines on income inclusions and exclusions)

EMPLOYMENT PLAN AGREEMENT

The City/County of ABC [**City or County**] and the Screening and WIA Referral Agency [**Agency**] agree to the following terms and conditions relating to Grant Number _____ also known as the ABC Main Street Project. This Agreement incorporates the Model Three Party Employment Agreement by reference.

1. **Agency** will work with businesses to be assisted to determine employment and training needs and to assist the business in utilizing various on-the-job training programs and job tax credits.
2. The following community organizations will be contacted by **Agency** regarding job opportunities created by the CDBG assistance.
 - Department of Rehabilitation
 - Educational or Training Institution
 - Regional Occupational Program
 - Employment Development Department
 - Department of Human Resources
 - Community Opportunity Center
 - Veteran's Services
 - Area Agency on Aging
 - Ø Refugee Services
 - Ø (Others as identified)
3. **Agency**, in coordination with the [**City/County**] and each business, will utilize any or all of the following methods to advertise job opportunities generated from the CDBG assistance.
 - Press Releases
 - Newspaper Ads
 - Posters
 - Flyers
 - Radio
 - Chambers of Commerce
4. The **Agency** recruiting office will work closely with the Workforce Investment Board, the [**City/County**] and the [Educational or Training Institution] in developing job recruiting efforts.
5. The [**City/County**] will be responsible for monitoring the contract between the business and the **Agency** and ensuring that at least 51% of **ALL** jobs created or retained as a result of the CDBG assistance are filled by persons who meet CDBG income eligibility requirements.

6. **Agency** will collect and maintain income client characteristic data relating to those eligible clients referred to and those referrals hired by each business. This data will be provided on a regular basis to the [City/County], per the reporting schedule in Attachment #2.
7. The **Agency** will maintain a recruitment file on all CDBG assisted related activities and that file will be available to the [City/County] upon request.
8. **Agency** shall assist each business in recruiting, screening and/or referring eligible applicants for employment. Eligible applicants are defined as being eligible under the CDBG regulatory guidelines for household income, area benefit or limited clientele.
9. Each business shall work cooperatively with the **Agency** to provide employment data and allow access to its place of business for purpose of carrying out its responsibilities described herein. Each business shall also refer all direct hires to **Agency** for income screening to determine Target Income Group status on hiring date.
10. Compensation for income screening and employee training services is set forth in the attachment, which details unit costs for publicity, eligibility screening referral, training, etc. Maximum amount to be paid shall not exceed the total of all unit costs in payment detail.
 - b) Per attached payment detail, Forms Development/Modifications to meet additional HUD income verification requirements will consist of:

This agreement shall take effect when it has been executed by authorized representatives from all parties, and shall be in effect for a term of three years from the execution of the Standard Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year dated below.

Agency

City/County of ABC

By: _____

By: _____

Date: _____

Date: _____

Payment Detail

FOR AGREEMENTS WITH AGENCY

Forms Development/Modification: \$_____

+

PUBLICITY/RECRUITMENT: _____ @ \$_____ ea.

ELIGIBILITY SCREENING: _____ @ \$_____ ea.

REFERRAL: _____ @ \$_____ ea.

PLACEMENT/TRAINING (optional): _____ @ \$_____ ea.

OTHER \$_____

+

TOTAL \$_____

FLAT FEE PER REFERRAL \$_____ ea.

MAXIMUM AMOUNT TO BE PAID UNDER THIS AGREEMENT \$_____

BENEFICIARY PLAN AGREEMENT

The City/County of Sample [**City or County**] and the Screening and WIA Referral Agency [**Agency**] agree to the following terms and conditions relating to Grant Number _____ also known as the **City/County of Sample** _____ Program. This Agreement incorporates the Model Microenterprise Three Party Employment Agreement by reference.

1. **Agency** will work with eligible program participants and potential entrepreneurs to be assisted to determine business assistance, employment and training needs and to assist the beneficiary in utilizing various business readiness, counseling, support services and training programs.
2. The following community organizations will be contacted by **Agency** regarding potential referrals for entrepreneur assistance by the **City/County of Sample** _____ Program.
 - Department of Rehabilitation
 - Educational or Training Institution
 - Regional Occupational Program
 - Employment Development Department
 - Department of Human Resources
 - Community Opportunity Center
 - Veteran's Services
 - Area Agency on Aging
 - Ø Refugee Services
 - Ø (Others as identified)
3. **Agency**, in coordination with the [**City/County**], will utilize any or all of the following methods to advertise the **City/County of Sample** _____ Program. and job opportunities generated from the CDBG assistance.
 - Press Releases
 - Newspaper Ads
 - Posters
 - Flyers
 - Radio
 - Chambers of Commerce
4. The **Agency** recruiting office will work closely with the Workforce Investment Board, the [**City/County**] and the [Educational or Training Institution] in developing recruiting, self-employment and employment efforts.
5. The [**City/County**] will be responsible for monitoring the contract with and services

provided by the **Agency** and ensuring that 100% of participants assisted through the CDBG funded program and at least 51% of **ALL** jobs created or retained as a result of the CDBG assistance are filled by persons who meet CDBG income eligibility requirements.

6. **Agency** will collect and maintain income client characteristic data relating to those eligible clients referred to programs and businesses and those referrals hired by each existing or startup business. This data will be provided on a regular basis to the **[City/County]**, per the reporting schedule in Attachment #2.
7. The **Agency** will maintain a recruitment file on all CDBG assisted related activities and that file will be available to the **[City/County]** upon request.
8. **Agency** shall assist each business in recruiting, screening and/or referring eligible applicants for employment. Eligible applicants are defined as being eligible under the CDBG regulatory guidelines for household income, area benefit or limited clientele.
9. Each participant shall work cooperatively with the **Agency** to provide eligibility data prior to participation in the **City/County of Sample** _____ Program.
10. Each business shall work cooperatively with the **Agency** to provide eligibility data prior to participation in the **City/County of Sample** _____ Program. And to provide employment data and allow access to its place of business for purpose of carrying out its responsibilities described herein. Each business shall also refer all direct hires to **Agency** for income screening to determine Target Income Group status on hiring date.
11. Compensation for income screening and employee training services is set forth in the attachment, which details unit costs for publicity, eligibility screening referral, training, etc.
 - b) Maximum amount to be paid shall not exceed the total of all unit costs in payment detail.
 - c) Per attached payment detail, Forms Development/Modifications to meet additional HUD income verification requirements will consist of:

This agreement shall take effect when it has been executed by authorized representatives from all parties, and shall be in effect for a term of three years from the execution of the Standard Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year dated below.

Agency

City/County of ABC

By: _____

By: _____

Date: _____

Date: _____

Payment Detail

FOR AGREEMENTS WITH AGENCY

Forms Development/Modification: \$_____

+

PUBLICITY/RECRUITMENT: _____ @ \$_____ ea.

ELIGIBILITY SCREENING: _____ @ \$_____ ea.

REFERRAL: _____ @ \$_____ ea.

PLACEMENT/TRAINING (optional): _____ @ \$_____ ea.

OTHER \$_____

+

TOTAL \$_____

FLAT FEE PER REFERRAL \$_____ ea.

MAXIMUM AMOUNT TO BE PAID UNDER THIS AGREEMENT \$_____

MICROENTERPRISE STATEMENT OF PURPOSE

Beneficiary Tracking and Cost Allocation Plan

Project: (Description of funded activity and TIG beneficiaries, i.e. services and/or job creation per grant agreement.) This **Plan** incorporates the **Microenterprise Statement of Purpose** as an attachment.

Benefit to Low-Mod Income Household: limited clientele, job creation/retention, area benefit

Goals: (As outlined in Enterprise Fund Application)

1. **Provide services to _____ (estimated) [city/county] residents** meeting Targeted Income Group (TIG) specifications as defined by the Department of Housing and Urban Development for the purpose of developing individual economic self-sufficiency **and/or to _____ microenterprise businesses** (5 or fewer employees including owner(s)) who will commit to retaining/creating a workforce of 51% verified TIG persons
2. **Award _____ loans** to microenterprise program graduates to assist in starting or expanding micro-business in the [city/county]. *(if applicable)*
3. **Create and/or retain _____ jobs** for [city/county] residents of which 51% must be from the Targeted Income Group [TIG households are those whose income equals 80% or less of the county median income] *(if applicable)*

Roles/Responsibilities of Participating Service Providers: (i.e. social services, job training and placement agency, WIB, SBDC, educational institution, consultant)

1. Organization or Individual and Service Provided: _____
Contract for Services (to be submitted upon execution)
2. Organization or Individual and Service Provided; _____
Contract for Services (to be submitted upon execution)
3. Organization or Individual and Service Provided; _____
Contract for Services (to be submitted upon execution)

Marketing of Services: (brief narrative describing advertising of program availability, establishing an advisory board and board representation, outreach to and interface with social services and placement agencies including affordable housing agencies, family or women's service centers, local career centers and CDCs, coordination with service providers and timeline for delivery of services/programs)

Screening/Assessment/Referral Process: (narrative, referencing contracts for services identified above and data collection formats referenced below, for each of the following)

1. Coordination with social service eligibility/workforce investment agencies resulting in referral to the program

2. Intake of application for participation in the each phase of the program by individuals and business owners
3. Income screening procedures for participation by, and reimbursement for services to, TIG household individuals
4. Needs assessment and referral procedure between services and programs
5. Evaluation of services/programs by beneficiaries

Programs/Services Tracking System: (Narrative describing spreadsheet tracking system as highlighted in **Forms** below, outlining process for tracking beneficiaries through the each stage of the program of services identified in **Goals (1)** above.) (*Identify by eligible activity per Statement of Purpose Attachment:* program or service description, service provider, location of program or service provided, number of anticipated participants per activity, number of times service or program is anticipated to be offered, format for tracking beneficiaries as identified below:)

Tracking/Reporting/Evaluation of Services Tools (tools attached)

(City/County) Microenterprise Program Application: Intake form distributed to individuals who will be participating in the program by microenterprise program staff. To be used to determine income eligibility, to identify applicant's business concept or entity and additional resources, to assess individual for readiness and to make appropriate referrals. Application includes:

1. Authorization Form For Family Income Certification: Included in beneficiary's submitted application for services. Certifies that information presented is accurate and that documentation will be provided upon request and authorizes representatives of the (city/county) and/or the State of California Housing and Community Development Department to verify household income through a release of information form.
2. Entrepreneurial Assessment Evaluation Form: Business readiness assessment to be reviewed by the [SBDC/Program administrator, lead staff, microenterprise trainer] to determine the feasibility of the business concept and appropriate entrance level for program services.

Beneficiary and Employment Plan Agreement: Executed agreement between referral agency and grantee, identifying resources for referrals and defining roles and responsibilities of the two entities in meeting the national objective and public benefit, and job creation requirements (where applicable), associated with CDBG loan funds. References Income Verification Form and Three-party Employment Agreement where applicable, as attachments.

1. Income Verification Form: Certified by screening agency. Identifies income verification method to be used and required forms of documentation which will be

attached. Will include presumption, public assistance or income tax information for each participant, as appropriate. Model to be submitted with executed Beneficiary and Employment Plan Agreement. Signed form to be kept in applicant's files.

2. Three-party Employment Agreement: Executed agreement between the referral agency, grantee and benefiting business defining the roles and responsibilities of the three entities in meeting the job creation and reporting, national objective and public benefit requirements associated with CDBG loan funds or where the benefiting business owner is not TIG-eligible. Model to be submitted with Beneficiary Tracking and Cost Allocation Plan. Executed agreement incorporated as attachment on each business loan and kept in each loan file.

Individual Self Employment Plan: (prepared by participant in partnership with microenterprise program administrator, incorporating individual participant's goals and outcome measurements). Can include or be replaced by Business Plan preparation and execution.

Tracking System Reporting Format: Spreadsheet tracking system that follows each income eligible applicant through the program, recording services provided, time allocated, costs incurred and funds leveraged. Separate tracking system or notation identifying participants who accessed services but were not eligible applicants, including method of charge for services.

Program Evaluation Form and Summary Format: One-page evaluation of services presented to each program participant at the close of each phase of the program to gather data regarding program effectiveness and gaps in service. Summary report produced quarterly or biannually for the benefit of the service and program providers to assess appropriateness and efficiency of services and programs provided.

Cost Allocation Plan: An example of the accounting system, including narrative descriptions, that will be utilized to differentiate between CDBG funds utilized in support of TIG technical assistance clients and funds from non-CDBG sources utilized to pay for the costs of assistance utilized by non-TIG clients.

This is a Sample Format. Each Beneficiary Tracking Plan should follow this basic format but should supplement or refine as the program dictates.

Insert Cost Allocation Plan

Statement of Purpose

Promoting self-sufficiency for Targeted Income Group population, Improving local economic climate through supporting entrepreneurship development and job creation.

Identify National Objective: (limited clientele, job creation/retention, area benefit)

Program Benefits

- Create local capacity for entrepreneurship development
- Support of Welfare to Work Initiatives
- Reduction on dependency of government programs
- Increase local tax base
- Creation of jobs, goods and services
- Build human capital through enhancing communications skills and business savvy
- Develop role models for aspiring entrepreneurs

Eligible Activities

<input type="checkbox"/> Resource center	<input type="checkbox"/> Business training
<input type="checkbox"/> Program Marketing/Outreach	<input type="checkbox"/> Loan Fund operation
<input type="checkbox"/> Screening for Eligibility	<input type="checkbox"/> Business support services
<input type="checkbox"/> Assessing Readiness	<input type="checkbox"/> One-on-one business counseling
<input type="checkbox"/> Making appropriate referrals	<input type="checkbox"/> Business start-up support
<input type="checkbox"/> Life skills and personal support	<input type="checkbox"/> Entrepreneur Mentoring
<input type="checkbox"/> child care/transportation	<input type="checkbox"/> Business operations support/followup

Program Evaluation

- Beneficiary Tracking Plan
- Data collection process/system
- Program impact per desired outcomes
- Progress and Compliance Reporting

APPENDIX G THREE WAY EMPLOYMENT AGREEMENT MODELS

BUSINESS ASSISTANCE PROGRAM

THREE-PARTY EMPLOYMENT AGREEMENT

This agreement, between the ("City/County of Sample ") and _____ ("**Employer**") will be used to assure continuing employment opportunities to economically disadvantaged and unemployed residents of the (City/County). Under this Non-Financial Employment Agreement, the **Employer** intends to (create/retain) jobs at least 51% of which will be held by Targeted Income Group (TIG) persons. The **Employer** will use the _____ ("**Agency**") as its initial resource for recruitment, referral and placement in positions covered herein. This Agreement is *not* a loan agreement but will be referenced by attachment in any loan agreement between (City/County) and the **Employer**.

General Terms

- a) The City/County seeks to provide Community Development Block Grant (CDBG) funded business assistance for business expansion. By virtue of this loan, the City/County expects to realize additional employment opportunities for lower income and unemployed persons.
- b) In consideration for any loan described above, the **Employer** agrees to enter into this Agreement and agrees to use the **Agency** as its initial resource for recruitment, referral and placement disbursement.
- c) The **Employer** agrees to hire or retain at least one permanent full-time employee (minimum of 1,750 work hours per year) per \$35,000 in CDBG loan funds by _____. The **Employer** also agrees that at least 51% of **all** jobs created will be filled by members of the targeted income group.
- d) It is the Employer's declaration that the business assistance described in Section A above will result in additional employment opportunities (of a non-managerial, not highly technical, and/or non-professional variety), as follows, and as shall be further described in a Job Order Form provided by the **Agency** (attach additional sheets as necessary, microenterprises are defined as employing five or fewer):

<u>Job Title</u>	<u>Number Of Positions</u>	<u>Anticipated Hiring Date</u>
------------------	----------------------------	--------------------------------

- e) The **Agency** will provide employment recruitment, referral, and placement services to the Employer subject to the limitations set out in this Agreement.
- f) The **City/County's** employment and training responsibilities under this Agreement, unless otherwise assigned, will be carried out by **Agency**.
- g) This Agreement shall take effect when signed by the parties below; fulfillment of all specified requirements shall be by ____ (24th month of State grant term for business loans/30th month of State grant term for microenterprise) ____.

2. Employment Recruitment

- a) The **Employer** agrees "covered positions" for the purposes of this Agreement shall include **all Employer's** job openings in the **City /County** created as a result of internal promotions, termination's, and expansion of Employer's work force, within the positions listed under Section I (d), with the exception of those classified as "non-covered", as defined in Section 2 (c) below.
- b) The **Employer** will timely notify the **Agency** of its needs for new employees in the covered positions. Notification shall be by Job Order Form provided by the **Agency**, and shall include, but not necessarily be limited to:
 - i. Number of employees requested by job title.
 - ii. Job description, including minimum qualifications stated in quantifiable and objective terms.
 - iii. Work to be performed.
 - iv. Hiring dates.
 - v. Rates of pay.
 - vi. Hours of work.
 - vii. Anticipated duration of employment.
- c) The following types of positions created by the **Employer** during the term of this Agreement shall also be regarded as covered by this Agreement: non-managerial, non-professional, and those not highly technical.

The following types of positions are considered non-covered positions: those of a supervisory nature requiring two or more years of formal training; and those filled by internal promotion from the **Employer's** existing work force; and family members of the borrower/owner.

3. Referral

- a) The **Agency** will refer job applicants eligible pursuant to Community Development Block Grant (CDBG) regulations to the **Employer** in response to the notification of need for new employees described in Section I (D). The **Agency** will maintain

the documentation of applicant/employee household income required by the CDBG program, and provide such information to the **City/County**.

- b) The **Agency** will screen applicants according to the qualifications agreed upon with the **Employer**.
- c) The **Agency** will notify the **Employer** of the number of applicants it will refer and begin making referrals no later than five (5) working days prior to the anticipated hiring date. The **Agency** will make every reasonable effort to refer at least one qualified person(s) for each job opening.
- d) In the event that the **Agency** is unable to refer any or all of the qualified personnel requested, the **Employer** will be notified by the **Agency**. The **Employer** will then be free to directly fill remaining positions. In this event, the **Employer** must fulfill the job creation\retention and national objective requirements through additional recruitment techniques in conformance with terms of the Grant Agreement. **Employer** will refer employee back to the **Agency** for the determination of targeted income group status.

4. Placement

- a) All decisions on hiring new employees will be made by the **Employer**; the **Employer** agrees to provide priority consideration to prospective employees for covered positions from the qualified persons referred by the **Agency**. If the **Employer** does not find any of the persons so referred to qualify for the opening(s), the **Agency** will be notified.
- b) The **Agency** will monitor job retention and employment performance of employees placed under the Agreement. The **Employer** agrees to cooperate in these follow-up efforts, and to provide four times annually hiring summaries until Grant Closeout, in a form acceptable to the **City/County**. This may include, but not be limited to, copies of employee rosters and payroll and tax information submitted to the State of California.
- c) After the **Employer** has selected employees from referrals by the **Agency**, the **Agency** will not be responsible for the employee's actions and the **Employer** hereby releases the **Agency** of liability.

5. Training

- a) The **Agency** and the **Employer** may agree to develop additional job training programs. The training specifications and the cost for such training will be mutually agreed upon by the **Employer** and the **Agency** and covered under separate training agreement(s).

6. Controlling Regulations & Laws

- a) If this Agreement conflicts with any labor laws or other governmental regulations, those laws or regulations shall prevail.
- b) If this Agreement conflicts with a collective bargaining agreement to which the **Employer** is a party, the bargaining agreement shall prevail.
- c) The **Employer** shall not discriminate against any applicant for employment due to race, religion, age, color, sex, national origin, physical handicap, sexual preference, or political affiliation.

7. Indemnification, Assignment Modification and Renewal

- a) The **Employer** and **City/County** shall defend and indemnify the **Agency** and its officers, agents and employees against and hold the same free and harmless from any and all claims, demands, damages, losses, costs, and/or expenses of liability due to or arising out of, either in whole or in part, whether directly or indirectly, the organization, development, construction, operation, or maintenance of the Project except for liability arising out of the concurrent or sole negligence of the **Agency**, its officers, agents or employees.
- b) If, during the term of this Agreement, the **Employer** should transfer possession of all or a portion of its business concerns to any other party by lease, sale, assignment or otherwise, the **Employer** as a condition of transfer shall require the party taking possession to agree, in writing, to the terms of this Agreement and to obtain approval of the **City/County**. A new Non-Financial Employment Agreement will be executed with the new party prior to the effective date of the transaction.
- c) This Agreement may, upon mutual agreement, be modified in order to improve the working relationship described herein.
- d) The **City/County** may terminate this Agreement at any time by written notification if its federal, state or local grants are suspended or terminated before or during the contract period.

8. Acceptance

The Undersigned hereby agree to terms and conditions listed herein.

EMPLOYER

CITY/COUNTY

By: _____

Title

By: _____

Title

Date: _____

Date: _____

AGENCY

By: _____

Title

Date: _____

MICROENTERPRISE PROGRAM THREE-PARTY EMPLOYMENT AGREEMENT

This agreement, between the _____ ("City/County of Sample"), the _____ ("Agency") and _____ ("Benefitting Business") will be used to assure continuing employment opportunities to economically disadvantaged and unemployed residents of the (City/County). This Agreement is being used in conjunction with the City/County of Sample _____ Program, which is receiving CDBG funds to operate the program for the benefit of low-moderate income persons.

This Agreement is a requirement of each **Benefitting Business** which is participating in the City/County of Sample _____ Program. The **Benefitting Business** owner need not be low-income but agrees to (create/retain) jobs, including his or her own, at least 51% of which will be held by Targeted Income Group (TIG) persons. This Agreement is *not* a loan agreement but will be referenced by attachment in any loan agreement between (City/County) and the **Benefitting Business** made from CDBG funds.

General Terms

- b) The **City/County of Sample** seeks to provide Community Development Block Grant (CDBG) funded microenterprise services to microenterprise businesses or persons with the capacity to form a microenterprise. By virtue of making these services available to local microenterprises and entrepreneurs, the **City/County of Sample** expects to realize additional employment opportunities for lower income and unemployed persons.
- b) In consideration for participation in the program described above, the **Benefitting Business** agrees to enter into this Agreement and agrees to use the **Agency** as its initial resource for recruitment, referral and job placement of employees.
- c) The **Benefitting Business** agrees to hire or retain at least one permanent full-time employee (minimum of 1,750 work hours per year) per \$35,000 in CDBG loan funds prior to the expiration of the grant agreement. The **Benefitting Business** also agrees that at least 51% of **all** jobs created will be filled by members of the targeted income group. The owner(s) of the business are included in this job creation/retention requirement.
- d) It is the declaration of the **Benefitting Business** that the microenterprise services described above will result in employment opportunities as follows: (microenterprises are defined as employing five or fewer, including the business owner):

<u>Job Title</u>	<u>Number Of Positions</u>	<u>Anticipated Hiring Date</u>
------------------	--------------------------------	------------------------------------

e) The **City/County's** employment and training responsibilities under this Agreement, unless otherwise assigned, will be carried out by the **Agency**.

g) This Agreement shall take effect when signed by the parties below.

2. Employment Recruitment

- a) The **Benefitting Business** will timely notify the **Agency** of its needs for new employees (excluding family members). Notification shall include, but not necessarily be limited to:
- i. Number of employees requested by job title.
 - ii. Job description, including minimum qualifications stated in quantifiable and objective terms.
 - iii. Work to be performed.
 - iv. Hiring dates.
 - v. Rates of pay.
 - vi. Hours of work.
 - vii. Anticipated duration of employment.

3. Referral

- a) The **Agency** will refer job applicants eligible pursuant to Community Development Block Grant (CDBG) regulations to the **Benefitting Business** in response to the notification of need for new employees described in Section I (d). The **Agency** will maintain the documentation of applicant/employee household income required by the CDBG program, and provide such information to the **City/County**.
- b) The **Agency** will screen and income qualify all applicants (including family members).
- c) The **Agency** will make every reasonable effort to refer at least one qualified person(s) for each job opening.
- d) In the event that the **Agency** is unable to refer any or all of the qualified personnel

requested, the **Benefiting Business** will be notified by the **Agency**. The **Benefiting Business** will then be free to directly fill remaining positions. In this event, the **Benefiting Business Employer** must fulfill the job creation\retention and national objective requirements through additional recruitment techniques in conformance with terms of the Grant Agreement and will refer the job applicant back to the **Agency** for the determination of targeted income group status.

4. Placement

- a) All decisions on hiring new employees will be made by the **Benefiting Business**. The **Benefiting Business** agrees to provide priority consideration to prospective employees for covered positions from the qualified persons referred by the **Agency**. If the **Benefiting Business** does not find any of the persons so referred to qualify for the opening(s), the **Agency** will be notified.
- b) The **Agency** will monitor job retention and employment performance of employees placed under the Agreement. The **Benefiting Business** agrees to cooperate in these follow-up efforts, and to provide four times annually hiring summaries until Grant Closeout, in a form acceptable to the **City/County**. This may include, but not be limited to, copies of employee rosters and payroll and tax information submitted to the State of California.
- c) After the **Benefiting Business** has selected employees from referrals by the **Agency**, the **Agency** will not be responsible for the employee's actions and the **Benefiting Business** hereby releases the **Agency** of liability.

5. Training

- a) The **Agency** and the **Benefiting Business** may agree to develop a job training program. The training specifications will be mutually agreed upon by the **Benefiting Business** and the **Agency** and covered under a separate training agreement.

6. Controlling Regulations & Laws

- a) If this Agreement conflicts with any labor laws or other governmental regulations, those laws or regulations shall prevail.
- b) The **Benefiting Business** shall not discriminate against any applicant for employment due to race, religion, age, color, sex, national origin, physical handicap, sexual preference, or political affiliation.

7. Indemnification, Assignment Modification and Renewal

- a) If, during the term of this Agreement, the **Benefiting Business** should transfer possession of all or a portion of its business concerns to any other party by lease, sale, assignment or otherwise, the **Benefiting Business** as a condition of transfer shall require the party taking possession to agree, in writing, to the terms of this Agreement and to obtain approval of the **City/County**. A new Three-Party Employment Agreement will be executed with the new party prior to the effective date of the transaction.
- b) This Agreement may, upon mutual agreement, be modified in order to improve the working relationship described herein.
- d) The **City/County** may terminate this Agreement at any time by written notification if its federal, state or local grants are suspended or terminated before or during the contract period.

8. Acceptance

The Undersigned hereby agree to terms and conditions listed herein.

BENEFITTING BUSINESS

CITY/COUNTY

By: _____

 Title

By: _____

 Title

Date: _____

Date: _____

AGENCY

By: _____

 Title

Date: _____

APPENDIX H:
VERIFICATION OF FAMILY INCOME CERTIFICATION FORM

VERIFICATION FORM FOR FAMILY INCOME CERTIFICATION

Date: _____

City/County: _____

Community Development Block Grant request for fiscal year _____

The information you provide regarding your family income will be part of your request for state subsidy funds which will assist the economic development of _____ (City/County) _____. The information will be confidential, but may require verification.

Please indicate by circling the number that represents the number of persons in your family as well as the approximate income. Please indicate whether your income is over or below the amounts noted below by the number of persons in your family. If your stay is seasonal and your permanent home is at a different place, use the number of family members who reside at the permanent residence.

FAMILY SIZE	INCOME	ABOVE	UNDER	COUNTY*
1	\$ _____	_____	_____	\$ _____
2	\$ _____	_____	_____	\$ _____
3	\$ _____	_____	_____	\$ _____
4	\$ _____	_____	_____	\$ _____
5	\$ _____	_____	_____	\$ _____
6	\$ _____	_____	_____	\$ _____
7	\$ _____	_____	_____	\$ _____
8	\$ _____	_____	_____	\$ _____

*80% of County Median Income - update annually

How many hours do you work each month? _____

Gender of head of household: _____ Male _____ Female

Nationality and age of head of household: _____ Over 62 years of age

_____ White _____ Black _____ Hispanic _____ Asian
_____ Alaska Native _____ Pacific Islander _____ American Indian

Income Verification

I certify that this income information is correct and I understand that the information I have provided on my family income **is subject to verification** by authorized representatives of the City/County of _____, and the State of Californian Department of Housing and Community Development, my signature authorizes verification and verification will occur prior to my employment/assistance.

Signature: _____

Date: _____

Name: _____
Printed Name

Home Address: _____

For official use only

VERIFICATION PROCESS for individuals

OPTION 1: Does the applicant live within a qualified census track? (i.e. a census track or block numbering area which has at least 70% of its residents who are TIG or has a poverty rate of at least 20% per most recent decennial census)? ____ YES ____ NO

➤ Census Track # _____

OPTION 2: Verify the applicant's family income. Ask the applicant to supply a verification source below. Or send the applicant's information to the Employment Training Department for verification.

Verification Sources that cover both income and family size include:

Food Stamp ID Card	Passport to Services	Section 8 Voucher
DHHS/SSB Form	Tax Returns (first page)	Section 8 Lease

Award letters for Food Stamps, Social Security, Disability, TANF or General Assistance

➤ If you receive verification from the applicant or ETD, attach a copy to this form.

VERIFICATION PROCESS for businesses

OPTION 1: Ask for a copy of the applicant's business license. Is the applicant's business located within a qualified block group within a qualified census track? Block Group # _____ Census Track # _____

➤ Attach copy of business license.

OPTION 2: If applicant does not qualify under block group/census track or family income, but has 5 or fewer employees, then discuss the agreement to hire from the target income group for 51% of jobs created in their business. The applicant must sign the agreement in order to qualify.

➤ Attach agreement with original signature.

CERTIFICATION:

☐ **Qualified to receive services subsidized with CDBG funds: I, hereby certify that I have verified the family income of person named in this application and attached appropriate documentation.**

☐ **NOT Qualified.**

Signature

Date

**PÁGINA DE AUTO-DECLARACIÓN
PARA INGRESOS DE LA FAMILIA**

Fecha: _____

Ciudad/Condado: _____

Solicitud de CDBG para año fiscal: _____

La informacion de ingresos de su familia que usted provea, sera parte de la solicitud preparada por la (Ciudad/Condado) _____. Dicha solicitud es para recibir fondos de el Estado de California, los cuales se usaran en el desarrollo economico de la (Ciudad/Condado)_____. Su informacion es confidencial, pero la Ciudad puede verificarla.

Por favor marque en la columna apropiada, el numero de personas que residen con usted y el ingreso aproximado. En las otras dos columnas indique si sus ingresos son altos o bajos en relacion con el numero de personas que residen con usted.

Si el lugar donde reside actualmente es temporal, por favor use el numero de personas que viven en su residencia (hogar) permanente.

Nº DE PERSONAS	INGRESOS	MÁS	MENOS
1	\$ _____	_____	_____
2	\$ _____	_____	_____
3	\$ _____	_____	_____
4	\$ _____	_____	_____
5	\$ _____	_____	_____
6	\$ _____	_____	_____
7	\$ _____	_____	_____
8	\$ _____	_____	_____

Cuantas horas trabaja usted por mes? _____

Datos generales de el empleado

_____ Masculino _____ Femenino

_____ Caucasiano _____ Negro _____ Hispano-Americano
 _____ Asiano _____ Nativo de Alaska _____ Isleño de Pacífico
 _____ Americano Nativo

_____ Maryor de 62 anos? _____ Discapacitado

Verificación de Ingreso

Yo declaro que esta información de ingreso es correcta, y entiendo que la información de ingresos que he proveído es sujeta a verificación por un representante de la Ciudad/Condado y del Departamento de Viviendas y Desarrollo de la Comunidad del estado de California.

Firma: _____

Fecha: _____

Nombre: _____

Seña: _____

(Nombre Escrita)_____

FAMILY INCOME GUIDELINES

Household income is defined as family income: all sources of income for one or more persons living in a single residence who are related by blood or marriage.

1. Inclusions in Family Income

- a. Gross Wages and Salary: The total money earnings received from work performed as an employee. It represents the amount paid before deductions for income taxes, Social Security, bond purchases, Union dues, etc.
- b. Net Self-Employment Income: Net income (gross receipts minus operating expenses) from a business firm, farm, or other enterprises in which a person is engaged on his/her own account.
- c. Net rent income or, less frequently, rent receipts.
- d. Pensions or other retirement benefits.
- e. Alimony.
- f. Periodic insurance payments; frequently referred to as regular income from insurance policies, annuities.
- g. Government and/or military retirement, (other than compensation for disability or death per Title 38, United State Code, Chapter II).
- h. Contest or lottery income.
- i. Periodic gifts, including payment or rent and living expenses from persons outside the residence.
- j. Interest including interest paid on inheritance and trust accounts, and dividends.
- k. Public Assistance payments.
- l. Federal, State, or local unemployment insurance benefits.
- m. Cash payments received pursuant to a State Plan approved under Title I Old Age Assistance, IV Aid to Families with Dependent Children (AFDC), X Aid to the Blind, or XVI Supplemental Security Income for the Aged, Blind and Disabled of the Social Security Act, or disability insurance payments received under Title II, Section 423 of the Social Security Act, or disability insurance payments received under Title II, Section 423 of the Social Security Act of payments received under the Black Lung Benefits Reform Act of

1977 (Public Law 95-239).

- n. Social Security, old age and survivors insurance cash payments. (Social Security Act, Title II, Section 402).
- o. Child support payments including payments made by State or local government on behalf of foster children in the home.
- p. Educational assistance and compensation payments to veterans and other eligible persons under Title 38, United States Code, Chapters 11, Compensation for Service-Connected Disability or Death; 13, Dependence and Indemnity Compensation for Service-Connected Death; 31 Vocational Rehabilitation; 34, Veterans' Education Assistance; 35, War Orphans' and Widows' Educational Benefits. In some cases, this item is simply referred to as "veterans' payments."
- q. Payments or allowances received by veterans while serving on active duty in the Armed Forces. In some cases, this item includes National Guard or military, naval or air force reserve activities.
- r. Payments made to participants in employment and training programs except wages paid for OJT, or Upgrading and Retraining. Exclude all compensation received under II-B.
- s. Capital gains and losses.
- t. Soil bank payments.
- u. Agriculture Stabilization Payments.
- v. Other income, except as indicated below.

2. Exclusions from Annual Family Income - Optional

- a. Non-cash income, such as food stamps, or compensation received in the form of food or housing.
- b. Imputed value of owner-occupied property or rental value of owner occupied property.
- c. Trade Act or Trade Readjustment payments.
- d. One-time unearned income, such as, but not limited to:
 - (1) Accident, health, and casualty insurance proceeds.
 - (2) One-time or fixed-term scholarship and fellowship grants.

- (3) Payments received for a limited fixed term under income maintenance programs and supplemental (private) unemployment benefits plans.
- (4) Lump sum inheritances including fixed-term annuities.
- (5) One-time awards and gifts. Does not include contest or lottery income.
- (6) Disability and death payments, including fixed-term (but not life time) life insurance annuities and death benefits.
- (7) Fixed-term Worker's Compensation awards.
- (8) Terminal Leave pay.

3. Verification of Annual Family Income

- a. Family income should be supported with documentation from the income source. A representative sample of all job classifications should be income verified. Income verification should be obtained prior to job placement. Determining the job holders income level will ensure that TIG benefit is measured and 51% TIG benefit is achieved.
- b. Maintenance of income verification records must be accessible for CDBG program review. Organize income verification records by each loan or funded activity.

APPENDIX I: TASKS MATRIX

APPENDIX J: DOCUMENT CHECKLIST FOR DRAWDOWN APPROVAL

DOCUMENT CHECKLIST FOR DRAWDOWN APPROVAL

City/County of _____

Date _____

Contact _____

Grant # _____

Address _____

Telephone # _____

Fax # _____

Business _____

Contact _____

Address _____

Loan Amount \$

For a loan under this grant all of the following must be received by the Department for review and approval before its initial cash request report can be submitted.

1. Loan analysis and recommendation submitted to loan committee addressing the following:
 - a. project description and proposed sources and uses,
 - b. use of CDBG funds and documented funding gap,
 - c. consistency with approved local program guidelines including overlay and underwriting requirements,
 - d. loan terms,
 - e. number of FTE jobs being created _____ or retained _____,
 - f. number of TIG jobs _____,
 - g. special funding conditions
 - h. Copies of Loan Documents

1. Documentation of local approval or commitment letter from jurisdiction to Borrower, including:
 - a. Name of business and borrower's name
 - b. Location and address of business
 - c. CDBG loan amount, rate, terms and conditions
 - d. Full Time Equivalent (FTE) and TIG commitment

1. Executed Three-way Employment Agreement

2. Documentation of complete and final environmental review by the grantee

3. NEPA noticing/State objection period expires: _____
On loans requiring noticing/RROF and Certification

Date Received	Date Approved
Notes: _____ _____ _____ _____ _____ _____ _____	
_____ _____ _____ _____	

Comments:

Reviewed/Approved _____ Date _____ Cash Request Processed on _____

APPENDIX K: ELIGIBLE JURISDICTIONS WITH POVERTY INDEX

ELIGIBLE JURISDICTIONS WITH POVERTY INDEX

Jurisdiction¹	% of Persons in Poverty²
ALPINE COUNTY	18.1
AMADOR COUNTY	7.9
Amador City	12.0
Ione	9.7
Jackson	9.2
Plymouth	9.0
Sutter Creek	9.3
BUTTE COUNTY	19.6
Biggs	18.1
Gridley	17.3
Oroville	27.9
Paradise	11.1
CALAVERAS COUNTY	10.1
Angels Camp	10.6
COLUSA COUNTY	10.9
Colusa	10.7
Williams	15.9
*CONTRA COSTA COUNTY ³	
Pittsburg	10.0
DEL NORTE COUNTY	14.0
Crescent City	22.5
EL DORADO COUNTY	6.2
Placerville	11.9
South Lake Tahoe	12.8

1. Figures for County entries are for unincorporated areas only.

2. Data Source: 1990 Census

3. The asterisk indicates counties that participate in the HUD CDBG Entitlement Program, and are not eligible to compete for funding under the state CDBG Program. Only the cities listed under the asterisked counties are eligible to compete for State CDBG funding.

Jurisdiction	% of Persons in Poverty
---------------------	--------------------------------

***FRESNO**

Fowler	15.9
Huron	44.5
Mendota	39.1
Orange Cove	46.8
San Joaquin	36.1

GLENN COUNTY

Orland	14.3
Willows	20.5
	22.2

HUMBOLDT COUNTY

Arcata	15.8
Blue Lake	28.1
Eureka	14.3
Ferndale	18.7
Fortuna	7.6
Rio Dell	12.0
Trinidad	20.5
	4.4

IMPERIAL COUNTY

Brawley	28.5
Calexico	24.3
Calipatria	32.3
El Centro	28.8
Holtville	23.3
Imperial	20.9
Westmorland	13.7
	26.3

INYO COUNTY

Bishop	11.1
	15.3

***KERN COUNTY**

Delano	23.6
Maricopa	9.0
Ridgecrest	7.2
Taft	8.7
Wasco	27.2

Jurisdiction	% of Persons in Poverty
KINGS COUNTY	19.2
Avenal	28.6
Corcoran	24.2
Hanford	15.7
Lemoore	13.9
LAKE COUNTY	13.5
Clearlake	22.1
Lakeport	10.9
LASSEN COUNTY	11.1
Susanville	18.2
*LOS ANGELES COUNTY	
Avalon	15.5
Bradbury	1.7
Hermosa Beach	5.5
Hidden Hills	3.7
Industry	13.8
Palos Verde Estates	2.3
Vernon	30.8
MADERA COUNTY	12.2
Chowchilla	18.0
MARIPOSA COUNTY	12.7
MENDOCINO COUNTY	14.3
Fort Bragg	12.3
Point Arena	19.1
Ukiah	13.3
Willits	16.9
MERCED COUNTY	18.4
Atwater	12.6
Dos Palos	22.3
Gustine	11.4
Livingston	21.6
Los Banos	19.4

Jurisdiction	% of Persons in Poverty
MODOC COUNTY	15.6
Alturas	13.9
MONO COUNTY	11.2
Mammoth Lakes	8.5
MONTEREY COUNTY	9.6
Carmel	4.1
Del Rey Oaks	1.8
Gonzales	25.2
Greenfield	15.9
King City	14.3
Marina	9.7
Pacific Grove	6.3
Sand City	10.5
Soledad	15.2
NAPA COUNTY	5.3
American Canyon	4.6
Calistoga	8.8
St. Helena	6.6
Yountville	3.1
NEVADA COUNTY	7.5
Grass Valley	13.8
Nevada City	10.8
Truckee	10.8
PLACER COUNTY	7.4
Auburn	8.2
Colfax	10.2
Lincoln	8.9
Loomis	5.0
Rocklin	5.6
PLUMAS COUNTY	11.1
Portola	18.7
*RIVERSIDE COUNTY	
Canyon Lake	3.4
Rancho Mirage	4.0
Indian Wells	7.6

Jurisdiction	% of Persons in Poverty
SAN BENITO COUNTY	6.2
Hollister	11.7
San Juan Bautista	16.2
 *SAN LUIS OBISPO COUNTY	
Arroyo Grande	8.3
Morro Bay	10.2
 *SAN MATEO COUNTY	
Atherton	4.1
 SANTA BARBARA COUNTY	11.0
Buellton	11.1
Carpinteria	5.9
Guadalupe	24.0
Solvang	9.4
 SANTA CRUZ COUNTY	8.3
Capitola	10.0
Scotts Valley	3.8
 SHASTA COUNTY	12.7
Anderson	18.5
Shasta Lake	13.4
 SIERRA COUNTY	10.7
Loyalton	5.4
 SISKIYOU COUNTY	11.7
Dorris	33.6
Dunsmuir	19.4
Etna	22.5
Fort Jones	18.1
Montague	18.1
Mount Shasta	15.1
Tulelake	24.5
Weed	23.0
Yreka	9.3

Jurisdiction	% of Persons in Poverty
SOLANO COUNTY	7.8
Benicia	5.4
Dixon	6.6
Rio Vista	8.3
Suisun City	9.4
STANISLAUS COUNTY	15.0
Ceres	15.5
Hughson	12.2
Newman	19.9
Oakdale	12.6
Patterson	14.5
Riverbank	14.4
Waterford	17.3
SUTTER COUNTY	11.1
Live Oak	29.1
TEHAMA COUNTY	12.6
Corning	20.0
Red Bluff	20.4
Tehama	10.5
TRINITY COUNTY	18.5
TULARE COUNTY	23.9
Dinuba	22.6
Exeter	21.8
Farmersville	35.4
Lindsay	23.9
Woodlake	28.1
TUOLUMNE COUNTY	8.8
Sonora	11.9
YOLO COUNTY	14.7
West Sacramento	18.5
Winters	11.0
YUBA COUNTY	20.4
Marysville	16.4
Wheatland	16.3

APPENDIX L: LABOR FORCE DATA FOR COUNTIES

CDBG staff will use the 2002 Revised Annual Average Unemployment Rate provided by the Employment Development Department (EDD) to rate and rank each applicant jurisdiction. Attached is the May 2002 data from EDD. You may access this data yourself at;

<http://www.calmis.ca.gov/file/lfmonth/0304pcou.txt>

The jurisdiction having the highest unemployment rate will receive full points for this rating criterion. All other jurisdictions will then be compared to the jurisdiction with the highest unemployment rate. Points will be assigned to all other jurisdictions based upon a ratio of each jurisdiction's unemployment rate as compared to the jurisdiction with the highest unemployment rate multiplied by the total number of points for this rating criterion.

(Note: The county unemployment rate will be used for both the county and any eligible cities located within the county.)

**APPENDIX M: HUD INCOME ELIGIBILITY LIMITS
BY COUNTY FOR 2002**

Instructions:

Income limits for the "targeted income group" (80% of the county's median income) are found by looking at the "lower income" column for the relevant county and reading across by household size. Income limits for the lowest targeted income group (50% of the county's median income) are found by looking at the "very low income" column for the relevant county and reading across by household size.

Higher income limits apply to families with more than eight persons. For all income groups, the income limits for families larger than eight persons are determined as follows: for each person in excess of eight, add eight percent of the four-person income limit base to the eight-person limit, and round the answer to the nearest \$50. For example, the nine-person very low income limit for Alameda County is \$46,000. ($\$32,850 \times .08 = \$2,628$; $\$43,350 + \$2,628 = \$45,978$; $\$45,978$ rounded = $\$46,000$).

Authority: Section 50093, Health and Safety Code.

Reference: Sections 50079.5, 50093, and 50105, Health and Safety Code.

HUD 1/27/99

APPENDIX N: COST CATEGORIES FOR GENERAL ADMINISTRATION,

ACTIVITY DELIVERY, AND PROGRAM LOAN/ACTIVITY	General Administration	Activity Delivery	Program Loan/Activity
Advertisement	X	X	
Application Preparation	X	X	
Appropriate Fees		X	X
Attend Workshops (HCD)	X		
Bidders Conferences		X	X
Use of Loan Proceeds			X
Engineering Draw/Design		X	
Environmental Studies	X		
Fiscal Reporting	X		
General Coordination	X		
Indirect Costs	X	X	
Insurance Premium		X	
Loan Processing*		X	
Meetings with Banks		X	
Meetings with Borrowers		X	
Personnel Office	X		
Planning Studies	X		
Procurement Office	X		
Program Reporting	X	X	
Loan Servicing		X	
Relocation Costs		X	
Legal Costs	X	X	
Loan Committee Meeting	X	X	

Costs of processing loans funded by another source may be charged to the CDBG-funded program if the other loan program is to be part of the jurisdiction's CDBG activity and is identified in the Enterprise Fund Application, Section D, Activity Description Form.

**APPENDIX O: ENVIRONMENTAL REVIEW PROCEDURES APPLICABLE TO
CDBG FUNDED ECONOMIC DEVELOPMENT ACTIVITIES**

ENVIRONMENTAL REVIEW PROCEDURES APPLICABLE TO CDBG FUNDED ECONOMIC DEVELOPMENT ACTIVITIES

The grantee is obligated to complete an environmental review whenever CDBG funds are used. The review process is set forth at 24 CFR Part 58. In the case of providing a business with direct financial assistance (such as loan, grant, loan subsidy, loan collateralization, or loan guarantee), the grantee must complete an environmental review for each instance of assistance. This process may require publication of a Finding of No Significant Impact (FONSI) and publication of a Notice of Intent to Request Release of Funds and HCD's release of funds. All applicable components of the process must be completed prior to the grantee's expenditure of CDBG funds.

In the case of loans or other form of direct financial assistance, expenditure of private funds by the potential borrower and/or commitment of funds by the locality prior to completion of the environmental review process may jeopardize the ability of the grantee to ultimately commit CDBG funds to the borrower's project. Prior to completion of the environmental review process, the borrower may only commit funds or incur costs for activities which would qualify as exempt under Part 58.34, such as project planning and design.

We recommend that all grantees examine their environmental review process to ensure that they are fully complying with the requirements of Part 58. To assist you in assessing the adequacy of your procedures, review the following information.

Early Review and Exempt Activities. Technical assistance activities generally provide business planning and related studies in support of an ultimate project. These activities are generally considered to be exempt under NEPA Section 58.34 (a). Planning/ Technical Assistance grants are available on an over-the-counter basis throughout the fiscal year to carry-out such activities.

Where Site-Specific Information is Lacking. When the grantee is going to capitalize a revolving loan fund, where loans will be made to as yet unidentified businesses, the grantee often lacks crucial, detailed information which is needed in order to complete an environmental review. Consequently, grantees will only be able to complete the environmental review on a loan-by-loan basis, at the time it receives loan applications.

Consider the Overall Project/Review Comprehensively. In its review of the proposed CDBG loan, the grantee must look at the entire project in which the CDBG funds will participate, not just the specific activity for which CDBG funds will be used. For example, if as part of a proposed business expansion, CDBG funds would be used to purchase equipment, and private loan funds and equity would be used to purchase a site and construct a new building, then the environmental review must look at the impact of the aggregate of action, including acquisition, construction, equipment installation, etc.

Mere review of the CDBG funded purchase and installation of equipment alone would be insufficient to assess the environmental impact of the CDBG participation in the overall project. In addition, the fact that an environmental review under CEQA has been completed during the land-use approval process does not satisfy the requirement that the specific project be reviewed under CEQA and NEPA.

Applicable Environmental Review Procedures. Projects may be classified by type into six different groups. Each group will required compliance with different procedural requirements, some minimal,

some extensive. The five groups are outlined below. The comments immediately following this breakdown briefly explain the procedural requirements associated with each group.

- (1) The project could be exempt (per 58.34) from NEPA; or,
- (2) The project could be categorically excluded but not subject to Part 58 under NEPA (per 58.35(c)(5)); or,
- (3) The project could be categorically excluded from NEPA (per 58.35) then converted to exempt status, if the activity would not affect or be exposed to any of the environmental factors addressed through other authorities listed at 58.5 (such as flood plains, historic preservation, etc.); or,
- (4) The project could be categorically excluded under NEPA (58.35) but not convertible to “exempt”, because the nature of the project requires that the grantee meet additional procedural requirements in conformance with the authorities listed at 58.5; or,
- (5) The project could be one which requires that the grantee complete an Environmental Assessment (NEPA) (per 58.36) which could lead to a Finding of No Significant Impact; or,
- (6) The project could be one which requires a full environmental impact statement (EIS) under NEPA (per Section 58.37).

Procedural Requirements by Group. The following comments briefly outline the minimum procedural requirements associated with each of the above groups:

Group 1: Exempt NEPA. Commitment or disbursement of CDBG funds for activities which are exempt (58.34) is permitted as soon as the grantee documents that the activity is exempt. The locality’s completion of the “Finding of Exemption” would satisfy this documentation requirement.

examples: planning/technical assistance studies

Group 2: Categorically Excluded but Not Subject to Part 58 NEPA. A project will fall into this category if it is found in 58.35(c)(5) under NEPA regulations. Required documentation includes Form 58.6, Finding of Categorical Exclusion (top part only).

examples: loans for working capital, plug-in equipment, supplies, where no changes are being made to the site.

Group 3: Categorically Excluded (Converted to Exempt) NEPA. A project will fall into this group if the grantee has no secondary findings on the Statutory Worksheet. In this case, no further review is required, and CDBG funds and private funds may be committed or disbursed as soon as the grantee documents its determination. Required documentation includes: Completed Statutory Worksheet, Finding of Exemption (NEPA). Remember that for a project involving an historical structure or land disturbance, the checklist must be marked “B” and SHPO must be contacted. The project is convertible if no significant impacts are identified.

examples: rehabilitation of buildings with no change in land use, minimal or no change in size, replacement or minimal change in infrastructure to support the project. The Statutory Worksheet has been completed and there are not secondary

findings.

Group 4: Categorically Excluded But Not Convertible to Exempt NEPA. If, in the process of completing the Statutory Worksheet, the grantee finds that there are one or more secondary findings, then the project would fall into this group. The grantee must document compliance before any funds, including private funds, are committed or disbursed. At a minimum, compliance will require that the grantee publish and disseminate a Notice of Intent to Request Release of Funds and a Request for Release of Funds. Required documentation includes: Completed Statutory Worksheet, Finding of Categorical Exclusion (NEPA), Notice of Intent to Request Release of Funds, Request for Release of Funds.

examples: same as group 3 above, however, there is a secondary finding on the Statutory Worksheet (in floodplain, historic building, etc.)

Group 5: Finding of No Significant Impact/Negative Declaration. If a project is not found within the regulations under 58.34 or 58.35, then an Environmental Assessment/Initial Study must be undertaken. This could lead to a Finding of Not Significant Impact (FONSI) (NEPA) or Group 6 below. Required documentation: Environmental Assessment, FONSI combined with a Notice of Intent to Request Release of Funds, Request for Release of Funds.

examples: new construction, rehabilitation with increase in size or change in use new infrastructure

Group 6: Requires an Environmental Impact Statement NEPA. For projects involving activities which fall into this group, the grantee must complete its review and document compliance before any funds, including private funds, may be committed or disbursed. If a project is not within the regulations under 58.34 or 58.35, then an Environmental Assessment must be undertaken followed by an EIR.

examples; same as group 5, however, the project will significantly impact the environment

CFR 58.	MONTR SEC.	CLEARANCE FINDING/ ACTIVITIES	DOCUMENTATION & FORMS
58.34	1.a.	Exempt from NEPA <ul style="list-style-type: none"> • Planning & T. A. • Microenterprise • Training • Eng./Design Costs 	Finding of Exemption <ul style="list-style-type: none"> • Project description • Environmental Officer signature
58.35 (b)	1.b.	Excluded from NEPA but not subject to Part 58 * <ul style="list-style-type: none"> • Working Capital • Inventory Purchase • Equipment Purchase 	Finding of Exclusion <ul style="list-style-type: none"> • Project description • Environmental Officer signature
58.34 (a) (12)	1.c.	Exempt from NEPA (categorically excluded project is converted to exempt) <ul style="list-style-type: none"> • Emergency situations 	Conversion to Exempt <ul style="list-style-type: none"> • Project Description • Environmental Officer signature Statutory Worksheet all status @ Primary Level – A** Building Construction
58.3(a)(3(ii))	1.d.	Categorically Excluded from NEPA	Statutory Worksheet any status @ Secondary level =B** Finding of Categorical Exclusion Notice of Intent to Request Release of Funds(allow 7 calendar days for public comment) Request for Release of Funds/Environmental Certification (upon receipt by dept, allow 15 days for public comment)
58.40		Environmental Assessment <ul style="list-style-type: none"> • This process determines if an Environmental Impact Statement or FONSI should be prepared. 	Format III Checklist Statutory Checklist Environmental Assessment
58.40, 58.43, 58.45	1.e.	Finding of No Significant Impact FONSI <ul style="list-style-type: none"> • Infrastructure Projects • Building Construction 	Environmental Assessment w/ source documentation Notice of Finding of No Significant Impact on the Environment combined with Notice to Public of Request for Release of Funds (allow 15 calendar days for public comments; upon receipt at HCD allow 15 calendar days for public comment) Request for Release of Funds/Environmental Cert.(upon receipt allow 15 days for public comment)

*Consider the entire scope of the project, not just how the CDBG funds will be applied.

**State Office of Historic Preservation must be contacted.

**APPENDIX P: ADDITIONAL SOURCES OF TECHNICAL AND
FINANCIAL TRAINING AND EMPLOYMENT INFORMATION**

ADDITIONAL SOURCES OF FINANCIAL ASSISTANCE

1. Rural Development

- a. Water and Waste Disposal Loans and Grants. Provides loans to fund full costs, or grants to fund up to three-quarters of the costs, of central community domestic water and waste disposal systems in rural areas and towns of not more than 10,000 people. Eligible applicants are public entities such as municipalities, counties, special purpose districts, Indian tribes, and nonprofit corporations. Applicants must be unable to obtain needed funds from other sources at reasonable rates and terms. The interest rate on the loans, based on the median family income, is 5-6.5%.
- b. Community Facilities Loans. Provides loans (no grants) to fund the construction, enlargement, or improvement of community facilities for public use in rural areas and towns of not more than 20,000 people. Eligible applicants are public entities such as municipalities, counties, special purpose districts, Indian tribes, and nonprofit corporations. Applicants must be unable to obtain needed funds from other sources at reasonable rates and terms.

Funds may be used for fire stations, libraries, hospitals, clinics, community buildings, industrial parks, or other community facilities that provide essential services to rural residents. Borrowers may also use the money for roads, bridges, utilities, and other improvements or to acquire interest in lands, leases, and rights-of-way necessary to the development of the facility. The interest rate on the loans, based on the median income, is 5-6.5%.

- c. Guaranteed Business and Industry Loans. Provides loan guarantees for loans made by commercial lenders to businesses and industries. The primary purpose of the program is to create and maintain employment in rural communities. RECDS may guarantee no more than 90% of the loan. Ineligible activities include loans for motels, hotels, or any tourist, recreation, or amusement facility.

Terms will not exceed 30 years for real estate, 15 years for equipment, and 7 years for working capital. Interest rates are negotiated and can be fixed or variable. Maximum loan is \$10 million.

The borrower must have enough equity to provide reasonable assurance

the project will be successful. Normally, RECDs will require at least 10% equity. More equity, such as in start-up operations, may be required.

Loans may be guaranteed in any location except in cities of 50,000 or more and their immediately adjacent urban or urbanizing areas.

d. Intermediary Relending Program Loans

Loans made to finance business facilities and community development projects not within the outer boundaries of any city having a population of 25,000 or more. This is achieved through loans made by RDA to intermediaries, which includes nonprofit or public relending agencies on terms for 30 years at 1 percent interest, who in turn provide loans to ultimate recipients for business facilities and community development projects in a rural area.

e. Rural Business Enterprise Grants

Grants made to assist public bodies and nonprofit corporations to finance and facilitate development of small and emerging business enterprises located in areas outside the boundary of a city of 50,000 or more and its immediately adjacent urbanized area.

<u>Contact:</u>	USDA/Rural Development 430 G Street Davis, CA 95616 (530) 792-5825 (530) 792-5838 FAX Chuck.Clendenin@ca.usda.gov Attn: Charles Clendenin, Chief Community & Business Programs
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2. Economic Development Administration

- a. Grants for Public Works and Development Facilities. Grants are available for public facilities such as water and sewer systems, access roads to publicly owned industrial areas, port facilities, railroad sidings/spurs, public tourism facilities, skill training facilities, and site improvements for publicly owned industrial parks. In order to qualify, a project must fulfill a pressing need of the area and: (1) stimulate long-term employment, (2) benefit the long-term unemployed, or (3) improve the opportunities for the

successful establishment or expansion of industrial or commercial facilities. The area must be qualified for EDA assistance and must not involve the relocation of jobs.

- b. Public Works Impact Projects (PWIP). The Public Works Impact Project funds the construction of public facilities projects in areas of high unemployment which provide immediate construction jobs in the project area and provide the foundation for permanent job creation. Construction must be completed within 12 months. Projects must be labor intensive.
- c. Technical Assistance Grants. Technical assistance funds are available to provide information, planning, and evaluation expertise to facilitate economic growth in depressed areas. Funding may be used for local economic development feasibility studies, marketing strategies, reuse studies, target industry analyses, and other uses related to job and income generation.
- d. Special Economic Development and Adjustment Assistance Program - Long-Term Economic Deterioration (LTED). Grants are available to aid State and local areas in the development and implementation of strategies designed to arrest and reverse long-term economic decline. The typical use of LTED funding is the creation of revolving loan programs. Technical assistance and public works area also eligible LTED uses.
- e. Special Economic Development and Adjustment Assistance Program - Sudden and Severe Economic Dislocation. Financial assistance is available to help State and local areas facing actual or threatened significant job losses due to plant closures, military base closings, and Presidentially declared natural disasters. Adjustment planning grants are available to applicants lacking an adjustment plan or the resources to prepare one. Adjustment implementation grants may be used for public facilities, revolving loan funds, technical assistance, and other uses related to putting dislocated back to work and helping the area recover from the economic dislocations.

Contact: Deena R. Sosson, EDA
801 I Street, Ste. 411
Sacramento, CA 95814
(916) 498-5285
(916) 498-5286 (fax)
Dsosson@doc.gov

- 3. National Cooperative Bank. The Cooperative Bank makes loans at prevailing rates of interest to consumer cooperatives in a variety of industry sectors. The

Bank also makes a very limited number of capital advances to start cooperatives and other cooperatives unable to qualify for market rate loans.

The Bank makes loans to many different types of cooperatives, including housing, food, health, producer, consumer goods and services, and student cooperatives.

Contact: Terry Simonette
1333 Broadway
Oakland, CA 94612
(510) 496-2200

4. **Small Business Administration.** As authorized under the Small Business Investment Act of 1959, as amended, SBA provides assistance in the form of loan guarantees and second mortgage financing to help reduce the scarcity of affordable financing.

Eligibility requirements are based upon size standards which vary by industry.

- a. **SBA 504 Loan Program.** The SBA 504 loan program is designed to assist small businesses by providing long-term (maximum of 25 years), fixed asset financing. Under the 504 loan program, the small business must work through a Certified Development Corporation.

Eligible uses of funds under the 504 loan program are: land acquisition, construction of a building, purchase of existing buildings and improvements, renovation and restoration, and the purchase of equipment (if part of real property).

Under the 504 loan program, a private lender provides 50% of the project cost at a market rate of interest and a fully guaranteed debenture is sold for 40% of the project costs (up to \$1,000,000), and the funds are lent at a fixed rate of interest. The small business concern is required to inject 10% of the total project costs.

For more information regarding this program or other local development programs, please contact your local Certified Development Corporation or the SBA contact listed below.

- b. **7a - General Business Loans.** This program is designed to assist small businesses by providing working capital to meet both short-term and long-term financing needs. Eligible uses of funds under the 7a loan program are: working capital, inventory, supplies, and materials; equipment acquisition;

some debt consolidation; business buy-outs; and construction conversion, rehabilitation, or expansion. A private lender provides the loan at market interest rates and SBA guarantees up to 90% of the loan, up to a maximum guarantee of \$750,000. The small business is required to inject 20% to 50% of the total project cost in cash or other assets to be utilized by the small business.

Contact: U.S. Small Business Administration
660 "J" Street, Ste. 215
Sacramento, CA 95814
(916) 498-6410
(916) 498-6422 FAX

5. Bond Authority.

- a. Special Assessment District Bonds. A "special assessment district" may be created to levy special assessment charges against properties benefiting from an improvement or service. Assessments may be paid over a number of years and used to secure bonds issued against the amount of unpaid assessments. Bonds are issued at municipal rates of interest.

This kind of financing may represent a local effort to increase the cost effectiveness of an application for State CDBG grant funds.

Eligible improvements include: basic infrastructure (roads, water, sewer, utilities, drainage), parking, landscaping, lighting, operation and maintenance of water service, electrical service, landscape maintenance, and street repair.

- b. Lease Revenue Bonds. Lease revenue bonds are sold through a special authority, such as a redevelopment agency or a parking district, which constructs the facility and leases it to the local municipality. The lease payments secure the bonds, and once the bonds are retired, the municipality takes possession of the facility.
- c. Tax-Exempt Revenue Bonds (SB 99 (Marks), Chapter 48 of 1975, California Community Redevelopment Law). The Community Redevelopment Law authorized redevelopment agencies to issue mortgage revenue bonds for financing housing and "mixed use" development (combination of residential and commercial use) judged to be an "integral part of a residential neighborhood."
- d. Tax Increment or Tax Allocation Financing. Redevelopment agencies are authorized under the Community Redevelopment Law cited above to use tax increments for improving, rehabilitating, and redeveloping "blighted

areas" as defined under the State law. Tax increment bonds can be sold to finance a project in the blighted area.

Once a jurisdiction adopts a redevelopment plan, property taxes are frozen at the current base. An increase in assessed value which may result from improvements in the project area is considered an "incremental assessed value." Taxes collected on the increment are allocated to the redevelopment agency which, in turn, uses the funds to retire tax allocation bonds issued to provide up-front financing for the project.

6. State Resources

- a. Loan Guarantees. The State has formed regional Small Business Development Corporations to receive and review applications for guarantees of financial assistance and to issue loan guarantees to qualified small businesses. Loan guarantees are available to businesses meeting federal Small Business Administration size criteria. The maximum preferred loan guarantee is \$350,000, with a seven-year term. Limited technical assistance is available from development corporations to non-guaranteed loan clients. The State provides general assistance and information on starting, financing, and buying small businesses.

Contact: California Trade and Commerce Agency
801 "K" Street, Suite 1700
Sacramento, CA 95814
(916) 322-1394
(916) 322-3524 FAX

- b. Hazardous Waste Reduction Direct Loans. The State assists small businesses with purchase and upgrade equipment that is more environmentally safe. Direct loans from \$20,000-\$150,000 are made by the Agency. Maximum loan term is seven years. Interest rate is tied to the State's investment fund rate.

Contact: California Trade and Commerce Agency
801 "K" Street, Suite 1700
Sacramento, CA 95814
(916) 322-1394
(916) 322-3524 FAX

- c. Repair Underground Storage (Petroleum) Tank (Rust) Direct Loan. The State assists small businesses with underground petroleum tanks in repairing, removing, replacing, or upgrading the tanks to meet EPA and state requirements. Direct loans from \$10,000-\$350,000 are made by the Agency. The maximum loan term is twenty years. Interest rate is based on

State's investment fund rate.

Contact: California Trade and Commerce Agency
801 "K" Street, Suite 1700
Sacramento, CA 95814
(916) 322-1394
(916) 322-3524 FAX

- d. Recycling Market Development Zone Loan Program. The state assists small businesses who are recycling-based manufacturers that utilize post-consumer waste materials located in designated Recycling Market Development Zones. Direct loans for real property, equipment, working capital, or refinancing of current debt. Also, local governments with Zone boundaries may apply for funds to finance public works infrastructure which directly supports eligible businesses within that Zone. Each eligible applicant may borrow up to 50% of the cost of a project, with a maximum of \$1,000,000. Fixed rate loans, with the rate set annually by the Board. Amortization up to 10 years, and based upon the useful life of the asset. Loan applications are accepted quarterly, with most loans closed within 3 months of Board approval.

Contact: California Integrated Waste Management Board
8800 Cal Center Drive
Sacramento, California 95826
(916) 255-2200
(916) 255-2228

- e. Infrastructure and Economic Development Bank. The California Infrastructure and Economic Development Bank was created in 1994 to promote economic revitalization, enable future development, and encourage a healthy climate for jobs in California

The bank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage state and Federal funds. The Bank's current programs include the Infrastructure State Revolving Fund (ISRF) Program and the Conduit Revenue Bond Program.

Contact: Infrastructure and Economic Development Bank
801 "K" Street, Suite 1700
Sacramento, CA 95814
Phone: (916) 322-1399
FAX: (916) 322-6314

ADDITIONAL SOURCES FOR TRAINING AND EMPLOYMENT

Private Industry Council Contacts

BUTTE COUNTY

Mr. Bill Finley
Executive Director
Private Industry Council
2185 Baldwin Ave.
Oroville, CA 95965

(530) 538-7301
FAX (530) 534-1167

GOLDEN SIERRA CONSORTIUM

Ms. Kim Hemmer, Director
Golden Sierra Job Training Agency
DeWitt Center
11549 "F" Avenue
Auburn, CA 95603

(530) 823-4635
FAX (530) 885-5579

HUMBOLDT COUNTY

Mr. Farrel Starr, Director
Humboldt County Employment
and Training Department
930 Sixth Street
Eureka, CA 95501

IMPERIAL COUNTY

Mr. Sam Couchman, Director
Imperial County Office of Employment
and Training
155 S. Eleventh Street
El Centro, CA 92243

KERN/INYO/MONO CONSORTIUM

Mr. John Nilon, Director
Employers Training Resource
2001 28th Street
Bakersfield, CA 93301

(805) 336-6849
FAX (805) 336-6858

KINGS COUNTY

Mr. John S. Lehn, Director
Kings County Job Training Office
Kings County Government Center
1400 W. Lacey Blvd.
Hanford, CA 93230

(209) 582-9213
FAX (209) 582-8947

MADERA COUNTY

Mr. Herman Perez, Division Administrator
Madera County Department of Education
114 South "C" Street
Madera, CA 93638

(209) 673-7031
FAX (209) 673-1794

MENDOCINO COUNTY

Mr. Charles R. Hall, Director
Mendocino Private Industry Council, Inc.
0408
655 Kings Court, Ste. 200
Ukiah, CA 95482

(707) 468-5388
FAX (707) 468-

MERCED COUNTY

Mrs. Carol Smith Tatum, Director
Private Industry Training Department
1880 W. Wardrobe Avenue
Merced, CA 95340-4599

(209) 385-7324
FAX (209) 725-3592

MONTEREY COUNTY

Mr. Joseph Werner, Director
Employment and Training Programs
Monterey County
P.O. Box 2135
Salinas, CA 93902

(408) 755-3247
FAX (408) 755-3246

MOTHER LODGE CONSORTIUM

Mr. Woody Smallwood, Director
Mother Lode Job Training Agency
230 S. Shepherd St.
P.O. Box 845
Sonora, CA 95370

Program (209) 533-8211
Admin. (209) 533-3396
FAX (209) 533-8958

NAPA COUNTY

Ms. Donna DeWeerd, Director
Napa County Employment and Training
2447 Old Sonoma Road
Napa, CA 94558

(707) 253-4339
FAX (707) 253-4895

NORTEC CONSORTIUM

Mr. Charles Brown, Director
JTPA Administration
Northern Rural Training and
Employment Consortium
7420 Skyway
Paradise, CA 95969

(530) 872-9600
FAX (530) 872-5647

NORTH CENTRAL RURAL TRAINING AND EMPLOYMENT CONSORTIUM

Mr. Charles Peterson, Director
SDA Administration Office
Sutter County Employment and
Training Office
1215 Plumas St., Suite 1800
Yuba City, CA 95991

(530) 822-7145
FAX (530) 822-7150

SAN BENITO COUNTY

Ms. Katherine Flores
Executive Director
San Benito County
1131 San Felipe Road
Hollister, CA 95023

(408) 637-9293
FAX (408) 637-0996

SAN LUIS OBISPO COUNTY

Mr. Lee Ferrero, President and Chief
Executive Director
San Luis Obispo County
Private Industry Council
3566 S. Higuera #100
San Luis Obispo, CA 93401

(805) 541-4044
FAX (805) 541-4117

SANTA BARBARA COUNTY

Mr. John Diego, Director
Employment and Training Programs
2400 Professional Pkwy. #105
Santa Maria, CA 93454

(805) 568-2286
FAX (805) 346-7651

SANTA CRUZ COUNTY

Ms. Cecilia Espinola, HRA Administrator
County of Santa Cruz
Human Resource Agency
1000 Emeline Avenue
Santa Cruz, CA 95060

(408) 454-4130
FAX (408) 454-4642

SHASTA COUNTY

Mr. Don Peery, Director
Shasta County Private Industry Council
1220 Sacramento Street
Redding, CA 96001

(530) 246-7911
FAX (530) 246-4254

SOLANO COUNTY

Mr. Robert Bloom, Executive Director
Solano County Private Industry
Council, Inc.
320 Campus Lane
Suisun, CA 94585

(707) 864-3370
FAX (707) 864-3386

STANISLAUS COUNTY

Ms. Kris Stadelman, Director
Stanislaus County Department of Employment
and Training
251 E. Hackett Rd., Suite C2
P.O. Box 3389
Modesto, CA 95353-3389

(209) 558-2100
FAX (209) 558-2164

TULARE COUNTY

Mr. Joseph H. Daniel, Administrator
Office of JTPA Administration
2374 W. Whitengale
P.O. Box 3146
Visalia, CA 93278-3146

YOLO COUNTY

Mr. Alex Laiewski, Director
Community Partnership Agency
112 West Main Street
Woodland, CA 95695

(530) 661-2900
FAX (530) 661-2925

APPENDIX Q CLOSING AN RLF LOAN

APPENDIX R: SAMPLE LOAN CLOSING GUIDELINES

